THE EMPIRE CLUB OF CANADA

Founded 1903

Addresses 1996–1997

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THE EMPIRE CLUB OF CANADA

1996–1997

93rd Year

HER MAJESTY QUEEN ELIZABETH II
AND PRINCE PHILIP

THE EMPIRE CLUB OF CANADA

Founded 1903

Addresses
1996–1997

GOD SAVE THE QUEEN

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The Empire Club of Canada

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The opinions and views expressed in the
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JULIE HANNAFORD
President, 1996–1997

The Empire Club of Canada
PRESIDENT'S FOREWORD

The Empire Club of Canada is a continuing reminder of how history is shaped and created through the maintenance of a forum for debate and the launching of ideas, outlooks, forecasts and opinions.

I am privileged to have been President during my term, for in doing so, I had the honour of meeting and hearing shapers of opinion, the developers of ideas, and the forecasters for the future.

The speakers, whose remarks are recorded in this yearbook, were at various times enthusiastic, optimistic, foreboding, insightful, creative, visionary, thoughtful, and more often than not, unforgettable.

The Directors and Officers of the Club, whose work was prodigious, faithful, and energetic, are the heart and soul of the organisation. Each person listed has placed a permanent stamp upon the Club and has been responsible for making it a continuing success.

There is no better thing than to be involved in an organisation that touches our community. Our work only partially satisfies that end. The Empire Club of Canada enriches the mind, promotes articulate debate and preserves the intricate and rich tapestry that defines and shapes ourselves and our nation.

Thank you for allowing me to be a part of a wonderful and eventful year.

Julie Hannaford, President 1996–97

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May 10, 1996

A joint meeting of The Empire Club of Canada and The Canadian Club of Toronto

The Hon. Ernie Eves

Minister of Finance

THE ONTARIO PROVINCIAL BUDGET

Chairman: **Libby Burnham**, Q.C.
President, The Canadian Club of Toronto

Head Table Guests

Stephen MacPhail, Senior Vice-President and Chief Financial Officer, C.I. Mutual Funds; Navin Chandaria, President and CEO, Conros Corporation; Ann Curran, President, Curran & Associates and a Director, The Empire Club of Canada; Martha O'Connor, Executive Director, Canadian Living Foundation; Ian Madill, Senior Vice-President, Operations, C.I. Mutual Funds; Gwyn Gill, Executive Vice-President, Customer Segments, CIBC; Paul Pagnuelo, Executive Director, Ontario Taxpayers Federation; Reverend, Doctor R. Stuart Johnston, Former Secretary, Montreal District, Canadian Bible Society; Beverly Mascoll, President, Mascoll Beauty Supply Limited and Vice-President, The Canadian Club of Toronto; and Julie K. Hannaford, Partner, Borden & Elliot and President, The Empire Club of Canada.

Introduction by Libby Burnham

Ernie Eves

Thank you, Libby. It is a pleasure to be here today. I have received many comments about the length of the Budget

Speech I delivered this week, which took just over an hour and a half. Apparently, some TV stations, showing the speech live, chose not to carry the whole presentation because it interfered with their regular programming, "The Simpsons," so I understand that many of you, who may have preferred Bart to Ernie, did not get to see the best part of my speech—that is, the announcement of our tax cut. Fortunately for all of you here today, I do not intend to re-read my Budget Speech and I promise you that today's remarks will not take 90 minutes.

I believe that our first budget will be remembered as the day we turned the corner in this province and sent a very important message about Ontario's new direction. As a province we faced a choice: we could continue on the track that governments have pursued for over a decade with uncontrolled spending, spiraling taxes and ever-mounting deficits, or we could embark upon a path that unleashes the job-creating potential of our economy by lifting the heavy yoke of inefficient government and high taxes. As Bart would say, "It was a no brainer." We chose the latter.

The message we sent to Ontarians on Tuesday was that we are doing what the people of Ontario have asked us to do, and that we are keeping our promises just as we said we would. With this budget, we are cutting taxes to generate economic activity, create jobs and restore fairness to the tax system. We are investing in programmes that are a priority for Ontarians, such as health care, classroom education and community safety. We are reducing the cost and size of government, spending taxpayers' dollars more wisely. We are providing a climate for job creation and building a better future for all Ontarians.

Our plan to balance the budget and restore Ontario's competitive edge is proceeding right on schedule. One good example of this is right here in downtown Toronto. Many of you may have noticed the billboard erected by

"Ontarians for Responsible Government" on the corner of Gerrard and Bay. Since our election last June it has displayed the picture of Premier Mike Harris with the following reminder of our election promises. It says, "Hey Mike! Don't forget to cut our taxes and your pensions." Well I was happy to see on my way to work Wednesday that this billboard is now covered with a stamp that says DONE.

In some ways that billboard is representative of the kind of cynicism that has crept into the way the people of Ontario view their political leaders. But at the same time it demonstrates how our government is delivering its promises. We promised we would cut taxes, and we did. This budget cuts taxes. Not once. Not twice. But 10 times.

One: We've cut personal income tax rates to put more of your money back in your hands to spend, save, invest or pay down debt as you choose. This will create jobs, boost consumer confidence and kick-start the economy.

Two: We've cut the Employer Health Tax on small businesses—a tax on jobs by any other name. This will free our small-business sector to do what it does best: create jobs.

Three: We are also eliminating the Self-Employed Health Tax which was the only direct tax on entrepreneurs in Canada.

Four: We're rebating the Land Transfer Tax for first-time buyers of new homes. This will encourage housing sales and create jobs in the construction trades. It will help young families realise the dream of home ownership. Since budget day, our budget hotline has had 1,000 calls about this measure.

Five: We're giving employers a tax credit to hire students from college and university co-op programmes. This will provide much-needed real-life work experience.

Six: We are rebating the Retail Sales Tax farmers pay on building materials to modernise their farms.

Seven: We're giving our film industry a tax credit for its labour costs—and doubling it for first-time commercial film-makers. This will boost this promising industry and create more skilled, high-value jobs.

Eight: We're exempting call-centre service from the Retail Sales Tax. This will help Ontario companies in this competitive industry that relies so heavily on state-of-the-art telecommunications technologies.

Nine: We're reducing the Race Tracks Tax rate to provide a stimulus to an industry that provides many positive economic benefits to the province and to protect between 25,000 and 50,000 jobs in the agriculture sector.

Ten: We're saving businesses $5 million a year by bringing corporate tax rules in line with federal regulations.

At the same time, we are also investing in the services the people told us were important. In fact, the government of Ontario will be spending a total $42.7 billion for programmes and services this year.

- Our spending on health care for this fiscal year has actually risen to $17.7 billion from the $17.4 billion we promised in the election campaign. We are reinvesting our savings from restructuring in the health-care sector.
- We're putting more money into home care for seniors and the disabled, so another 80,000 Ontarians in need will get the protection they deserve.
- We are expanding a programme to aid early detection and treatment of breast cancer.
- We're taking seniors and people with disabilities off welfare—where they never belonged—and into a Guaranteed Income Support programme that responds to their needs and respects their dignity.

- We're funding 23 new MRI machines in the province of Ontario.

With this budget, we're assisting parents and their children at the earliest and most vulnerable stages in life.

- Child-care spending is up to $600 million this year—the highest in Ontario's history!
- We are contributing $5 million to assist community-based child nutrition programmes in partnership with the Canadian Living Foundation for Families.
- There's $10 million for programmes for children with speech and learning disabilities.
- There's $10 million in health education and support services for expectant mothers and young families with children under six years of age.

We are spending on the things you said were important. The difference is we're spending thoughtfully. Ontarians working together can do more for their communities than government can do alone. Our government believes that those organisations whose primary mandate is to assist those who are less fortunate in our society deserve our support. Promoting and encouraging both the spirit and the commitment of volunteers is a high priority. The budget provides:

- Up to $10 million to invest in new measures and technologies to co-ordinate and link the voluntary service agencies that already exist in the province.
- Increased integrity for charitable gaming activities.
- An expected $180 million in extra revenues annually for Ontario's local and community charities. We provided for the establishment of Crown Foundations. This will make it easier for public institutions, including public hospitals, public libraries and organisations such as the Ontario Cancer Treatment and Research Foundation to solicit charitable donations.

We are on track to a balanced budget in the year 2000–2001. Faced last June with the deficit we found of $11.2 billion, we took action to bring our spending under control. Not only have we met our deficit target of $9.3 billion for 1995–96 fiscal year, but we improved on it. Our deficit for the fiscal year that just ended will be $9.1 billion. By 1996–97 that deficit will be down to $8.2 billion—a 27-per-cent drop since we took office. That's because we are continuing to review everything government does to find new efficiencies, to become more accountable to taxpayers.

You know, it is always interesting to note people's reaction following budget day. I must say the Liberals and NDPs whom I see daily in Question Period, if they haven't "flip-flopped," certainly have changed their tune.

Before the budget, Lyn McLeod called the tax cut "massive," "reckless," "a huge tax slash"—now, she's calling it "peanuts." Bud Wildman has accused us of "tossing a few crumbs to Ontarians." Before the budget, the Liberals and the NDP said we were "obsessed with cutting the deficit"; we were "hacking and slashing" and "ruining" people's lives. Now, they say we aren't moving fast enough. In fact MPP Gilles Pouliot said, "I would have preferred to go farther on deficit cutting."

Before the budget, they said Ontarians wanted action on the deficit before a tax cut. "Ontarians are telling you to keep your tax cut," they said. Now, when we give taxpayers a way to contribute their tax cut directly to deficit reduction, they call it "a gimmick." Bud Wildman calls it "nothing more than a public relations move," and says, "I doubt many people are going to contribute."

This week both in the many interviews I have done and in the legislature I have been asked time and time again what evidence I had that cutting taxes will create jobs and stimulate the economy. It is quite simple. We have seen what the spend and tax, tax and spend approach of the last two governments has done. Ontario has become less competitive—we are the second-highest-taxed jurisdiction in North America. We believe that five million Ontario taxpayers with more disposable income will spend this money far more effectively and wisely than any government could ever dream of.

When our tax cut is fully implemented, every single taxpayer will get a tax cut, 91 per cent of taxpayers in Ontario will see their taxes cut by 30 per cent or more, and 64 per cent of the benefits from this tax cut will be concentrated on middle-income Ontarians earning between $25,000 and $75,000 a year. Our tax cut will put $3 billion back into the hands of these hard-working Ontarians.

Those with higher incomes will also get a tax cut, but it will be partially offset, just as we had said in the election campaign, by a fair share Health-Care Levy. Ontario's top marginal tax rate will be cut from the 53.2 per cent to 49.6 per cent, the second-lowest in Canada. Ontario's income tax system will be more progressive when the tax cut is fully implemented, making it fair for everyone.

Furthermore, more than 250,000 lower-income individuals will benefit from the changes we made to the Ontario Tax Reduction programme, including 10,000 people who will now pay no income tax at all. Others will receive a tax cut of greater than half of the total provincial taxes they now pay. One example of this is a family of four with one earner and an income of $25,000. Its Ontario personal income tax payable will fall from $515 to $220 when the tax cut is fully implemented, a cut of 57.4 per cent. In the words of Paul Nykanen, Vice-President of the Canadian Manufacturers' Association: "We need to do something to kick-start the domestic economy. The only way to do that is to put money in people's pockets. This budget is going to have a ripple effect, no question."

Another issue that I would like to address is jobs and how we as a government will deliver the 725,000 new jobs promised in the Common Sense Revolution. Massive shifting of resources into the public sector has not increased employment or improved the income of the average worker in Ontario. Indeed, just the opposite: when we took office there were fewer jobs than in 1989 and the average worker was taking home less pay in real terms than in 1985. In listening to the people of Ontario we heard that much of what government was doing had little connection with what the owners of this enterprise—the people of Ontario—considered to be its basic business.

People in Ontario want a government that provides them with the important services they need and does so with equal measures of compassion and common sense. They want a government that leaves them with a greater share of the rewards of their own efforts and lets the private sector get on with its business of creating jobs and economic growth.

That is why we have begun the huge job of restructuring Ontario's public sector—a task that is long overdue. Other countries around the world have already recognised that in order to compete in the global economy, their public sector has to be smaller, more efficient, and less of a burden on taxpayers. Taxpayers' dollars now fund many activities that could be better run by the private sector or by public-private partnerships.

Obviously, privatisation of some government services is one possibility in this regard. But it is a step that we will use judiciously. We will be guided by pragmatism and business cases, not by opportunism and ideology. The Premier has asked me to chair a special cabinet committee on privatisation, which will oversee the process. With the help of advisers from both the private and the public sector, its mandate will be to ensure we get the best value for taxpayers. The process, I can assure you, will be open and transparent.

People in the business and financial communities—especially those in the small-business sector, which will create the lion's share of new jobs in Ontario—have recognised the need to act now to cut taxes. The early reports I've seen from across the province confirm that. Catherine Swift, the president of the Canadian Federation of Independent Business, pointed out that her organisation has been urging an end to the Employer Health Tax for as long as it's been in place. And she added that a recent survey of her organisation's members estimated that as many as 80,000 businesses in Ontario would hire new workers as a result of the tax cuts. The Conference Board of Canada said that meeting the commitment to cut taxes will boost confidence. And the Board of Trade of Metropolitan Toronto called the income tax cut "just the sort of incentive needed to create jobs in the Greater Toronto Area."

These people confirm, more than anything I could tell you, that cutting taxes builds confidence and economic momentum. It makes us more competitive and that's something Ontario needs now—to boost confidence and make Ontario the location of choice for people and businesses across North America.

New figures released by Statistics Canada today show that in April Ontario gained 35,000 full-time jobs. That is a total of 63,000 full-time jobs in the last three months. We believe that additional stimulus created by our tax cut coupled with a balanced approach to labour-management relations, freezing the minimum wage, containing the costs of Workers' Compensation and getting rid of government red tape will translate into hundreds and thousands of new jobs in Ontario.

As I said last Tuesday, I believe our first budget has set a new direction for Ontario. The changes we are making are based on our belief that Ontario can have a better future:

- By freeing its children and grandchildren from the burden of government deficits and growing debt.

- By providing programmes that will take care of people in need of permanent help and give a hand up to those requiring temporary assistance.

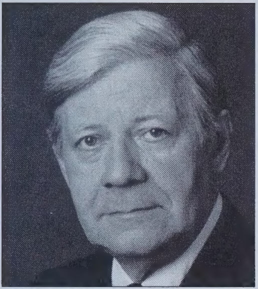
An Ontario that leads Canada, in jobs, in investment, in health care, in education and in community safety.

An Ontario where hard work is rewarded, where initiative is encouraged.

They want an Ontario where their children can grow, and where young people have hope and opportunity.

The people of Ontario want to know that tomorrow will be better than today for themselves and for their children.

The appreciation of the meeting was expressed by Julie K. Hannaford, Partner, Borden & Elliot and President, The Empire Club of Canada.



May 23, 1996

Helmut Schmidt

Former Chancellor, Republic of Germany

GERMANY AFTER UNIFICATION

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Duncan Jackman, Investment Officer, Personal Trust and Investment, Cassels, Blaikie and a Director, The Empire Club of Canada; Tom Jakobek, City Councillor, City of Toronto, Ward 10; Hans Vogt, Founder, Votron Electronics Inc. and Writer; Walter Homburger, First Manager, National Ballet of Canada, Manager, Glenn Gould and 25 years, Managing Director, Toronto Symphony; John Campion, Partner, Fasken Campbell Godfrey and a Past President, The Empire Club of Canada; Diane Francis, Editor, The Financial Post; Uwe Harnack, President and CEO, Canadian German Chamber of Industry and Commerce Inc.; Gerry Meinzer, President, Smart Toronto and Past President, Metropolitan Toronto Board of Trade; Ernest Lieb, President, Mercedes Benz Canada; The Hon. Roy MacLaren, PC, MP, Special Advisor to the Prime Minister, International Trade and High Commissioner Designate to United Kingdom; Mary Lou Benotto, Partner, Chappell, Bushel, Stewart and First Vice-President, The Empire Club of Canada; David Turnbull, Chief Government Whip, Ontario Government; Alan Sullivan, President and CEO, The Canadian Institute of International Affairs; The Most Rev. Michael Peers, Primate, Anglican Church of Canada; Professor Dr. Hartmut Froeschle, German Language and Literature, University of Toronto and President, German Canadian Historical Association; Andrew Brandt, Chairman and CEO, The Liquor Control Board of Ontario and Former Interim Leader, PC Party of Ontario; Douglas Derry, Partner, Price Waterhouse, President, The Empire Club Foundation and a Past President, The Empire Club of Canada; Mark Kassirer, President and CEO, Deutsche Morgan Grenfell Canada Ltd.; and His Excellency Dr. H. G. Sulimma, Ambassador, Federal Republic of Germany.

Introduction by Julie Hannaford

It is a very great honour to have the former Chancellor of Germany, Helmut Schmidt, as our speaker and guest of honour today. We are honoured to have Mr. Schmidt address us, not only because he is one of Europe's most influential statesmen and has distinguished himself by both the spoken and the written word, but also because our guest today is known as a man who never minces words. It is one thing to be prepared to speak in a public forum, and have one's words recorded for historical review. It is quite another to speak in a public forum and to say what one means and mean what one says all the time, even if what one says may not be pleasing to hear. We need more people in the latter category rather than the former, and I am pleased to say that Mr. Schmidt has promised to live up to his reputation.

Helmut Schmidt was born and schooled in Hamburg. Following the completion of secondary school, Mr. Schmidt served in the military and became a member of the Social Democratic Party in 1946. In 1965 he became a member of the Bundestag, and in 1974, he became the Chancellor of the Federal Republic of Germany, serving as Chancellor until 1982. He continued serving as a member of Parliament until 1987. In 1982, he became the publisher of Die Zeit, and since 1982, he has complemented his political career by being a prolific and at times highly controversial writer. His writings include a study of the Soviet Union from the European point of view published in 1984, a book entitled "A Grand Strategy for the West," published in 1985, and in 1989, a book that applies to all countries, entitled "Men and Power."

Much has changed in Germany and Europe since Helmut Schmidt's term as Chancellor ended. Little has gone unnoticed and each event in history has been the subject of insightful comment by Mr. Schmidt. On many occasions, Mr. Schmidt has had the courage to say that which lesser mortals would have left unsaid. For Canadians, Mr. Schmidt has been unstinting in his support of the initiative taken toward detente and disarmament. Thirteen years ago, in this same hotel, speaking to a luncheon crowd of 800 people, Mr. Schmidt told Canada that detente was a word not spoken anymore in certain circles, but that it was vital to global security. More importantly he told us as Canadians that it was "not necessary to be a member of the superpowers club in order to unite to pursue nuclear arms limitation." That was in 1983. Much has changed since then (not the least of which is the cost of lunch). The European Community has a profile today which few would have imagined in 1983. We as Canadians can ignore these changes and challenges only at our peril. A stronger European Community, with a stronger currency has already begun to affect our lives and our livelihoods. Just as we are adapting to (or perhaps not adapting to) NAFTA, we must turn our minds to the prospect of transatlantic free trade. It is therefore an honour and a privilege to have Mr. Schmidt agree to address us on these and other issues. I can promise you that as far as I am aware Mr. Schmidt has never been at a loss for words, except once in his life when he was invited by a less than sympathetic flight attendant half way through a transatlantic flight to partake of his cigarette outside the aircraft—perhaps on the wing. On that one occasion, Mr. Schmidt opted for silent compliance. Given the alternative available, we can all be grateful.

Please join me in welcoming Helmut Schmidt to The Empire Club of Canada.

Helmut Schmidt

Ms. Hannaford, ladies and gentlemen, let me thank you for your flattering introduction. Let me also thank The Empire Club for your invitation and particularly Mr. Hans Vogt who initiated my visit here today.

It has been proposed that I should speak about the role of Germany after unification. Let me start out by saying that it would be wrong, particularly wrong for a German, to assume that unification has enlarged the role of my country, but Germany's responsibilities have grown considerably. If the 80-million state of Germany committed a mistake now the consequences would be considerably greater than if the formerly amputated West German state had made a mistake. I would like to put Germany's role into a broader context and scope because the unification of my country has been only one element in a revolutionary, growing change in the world situation and certainly one of long-lasting historical dimensions. I'm talking of the liberation of more than a dozen European nations from communist dictatorship and from Soviet-overlord sovereignty. Even more important is the collapse of the Soviet Union and an absolute uncertainty about the future role of Russia which may remain chaotic or at least very weak in domestic, political and economic terms for over 25 years or up to half a century. But, Russia still is and will remain a military superpower with more than 10,000 nuclear weapons and millions of soldiers.

Another change is the very fast rise of China to superpower status. The size of China's gross national product (GNP) and its exports and imports will, within the next two decades, reach the size of Japan's GNP and exports and imports. Rather soon thereafter, China will equal the United States of America in the volume of its economy and its role in the world's markets.

So, the 21st century will start under the auspices of a triangle of superpowers who have not as yet learned to acknowledge this new situation, and have not as yet learned to respect each other as superpowers. Obviously quite a few people in Washington, D.C. and quite a few people in Europe still find it very hard to understand that.

The European Union may grow into world-power status or it may not. It depends on the European Union's ability and willpower to create one single currency instead of hitherto 14 currencies with floating exchange rates and floating cross rates. Furthermore, it will depend on our willpower to arrive at one foreign and security policy. This process may take decades. The single currency managed by a totally independent autonomous European central bank will most likely start in 1999. I have to admit though that there is popular resistance and also populist resistance against it and there is British resistance against it. And then, there are the so-called criteria of economic convergence regarding the overall accumulated indebtedness of future participating countries and also their annual budgetary deficits; both being measured in terms of their respective GNP—16 per cent in the case of accumulated debt and three per cent of their GNP in the case of their budgetary deficit.

You will have read a lot of that in your own newspapers but most journalists have never read, and therefore cannot ever report about the fine print in the Maastricht Treaty. In fact, the Treaty states quite clearly that these criteria of convergence are not binding and that, in 1998, the council of heads of European government is entitled to accept members to the common currency which do not meet the criteria, taking into account the general economic situation of the country. This is what the council will most likely do in the course of 1998. I assume that France, Germany, Holland, Belgium, Luxembourg, Austria and Finland will jointly replace their currencies by the new currency Euro. Perhaps some others also will join from the beginning but not Britain. Euro will represent around 180 million people—one and a half times as many as the Japanese yen. And if Italy joins from the beginning, which is possible, then Euro will represent around 240 million people—almost as many as represented by the United States of America's dollar. What will that mean for Canada? My answer is not very much indeed because Canadian enterprises are already accustomed to a global economy with three major reserve currencies—the dollar, the yen and the Deutschemark. He who holds Deutschemark assets will in the future receive interest or dividends in Euro and will be paid back in Euro, and Euro will very likely be as stable as Deutschemark has been hitherto. The same will of course apply to Canadian holders of guilders, francs, or loans denominated in francs or guilders, or what have you. It is possible that some central banks in the world will in the course of time replace U.S. dollar currency reserves with Euro as they did when Deutschemark gradually became a reserve currency.

Immediately after World War II the American dollar was the only reserve currency in the world but since the late 60s and the very early 70s this is no longer the case. So, this experience of a very slow replacement of the dollar by new reserve currencies like the yen, the Deutschemark and the Swiss franc has proved that the graduality of that process did make the consequential increase and U.S. dollar supply easy to absorb by a growing U.S. economy. It didn't create any tensions or any difficulties and the same will happen once Euro replaces the Deutschemark, the French franc and so on.

What will happen if the single Euro currency does not come about? In that case, nobody will immediately suffer except my own country Germany. I'll come back to that a little later. Nobody will suffer because the markets will take it in their stride. The markets will push up Deutschemark which today is an overvalued currency thereby creating additional difficulties for German industry and for maintaining jobs in my country. In the long run, all the member nations of the European Union (right now 15, and quite a few waiting in the wings to become members, notably Poland, Hungary and the Czech Republic) will suffer from such a failure because it might very well mean the end of the integrative process in Europe and it might very well mean a deterioration of the European Union into merely a free-trade area.

If one looks backs to the beginning of that integrative process it was started in 1950 by a proposal made by Winston Churchill in his famous speech in Zurich, Switzerland in 1946. The start was instigated by a great Frenchman, Jean Monnet. The following are motives for Churchill, four years later for Monnet, and then Truman and also the German leader of that time, Adenauer. The first motive was to bind Germany into a greater community and the second to create a barrier against further westward expansion of Stalin's imperialism and of communism in general. The first motive is still valid particularly so because then Germany, West Germany, was only 48 million. We are now greater than 80 million. The second motive—building a barrier against Soviet imperialism—doesn't play any role today. But in the meantime a third motive has become very important—the economic motive. Many people in Europe have seen that the members of the European Community have done much better economically than non-members. The economic advantage is the motive for instance for Ireland, Sweden, Finland and Austria to have become members. A fourth motive, at the end of the Cold War and after the replacement of the duality between Moscow and Washington by a triangle of superpowers, is the insight that not even major European countries like France, Italy, or Germany could stand alone against the weight and power of one or all of the three superpowers of the 21st century. Only jointly will they be able to defend their interests whether it is in the World Trade Organization, the field of tariffs and trade, the field of the network of currency, the field of the hazardous developments in the financial markets, etc.

The plan originally comprised only coal and steel and branches of industry which were rightly considered to be the key industries for the rebuilding of Europe after World War II, but since then the community has grown. It now comprises not only all the industries it did in the 50s but also agriculture, energy policies, environmental polices, anti-cartel policies, what have you. It's a unique undertaking in the world's history that a group of nations voluntarily unites; nations most of which are almost a thousand years old and at least two of them, Greece and Italy, more than 2,000 years old. The process has been very gradual. In the beginning we were six countries; now we are 15. We may soon be 21 or more. It has been managed in a pragmatic English way, one step at a time. First we come to a bridge; then we cross it; then we see the next bridge coming, the next river and then we have to prepare to cross the next river and build the next bridge. If that process were to fail, at the end of this century Germany would be the greatest loser; also Poland, by the way, and to a much lesser degree the few others in the east of central Europe. Why would that be so?

Germany is a very small country in the middle of a very small, very narrow continent. We have nine immediate territory neighbours. We have open borders. Poland has seven immediate territory neighbours—open borders as well. Canada has just one neighbour—lucky for you. The British have no neighbours at all—even luckier than you. It's not always easy to live in peace with your immediate neighbour. If you have seven of them like Poland, it is more difficult. If you have nine of them it's even more difficult. Among these nine neighbours I have not counted Russia, I have not counted Britain and I have not counted Italy. Although they have played a great role in German history over the last millennium they are not immediate neighbours. If I counted them we would have 12.

If one looks back over the last millennium, one will see that if the Germans in the middle of that narrow continent were weak, other nations, states and forces from the fringes of Europe would push into the centre—the Asian hordes on horseback, the Vikings, the Swedes and the most evil of all, Napoleon. On the other hand, when the Germans felt strong they pushed to the edges and the outskirts of Europe, the last time in the most bloody imperialist way under Hitler. Here lies the root of Churchill's and Monnet's initiative lest history should be repeated. It's necessary to bind Germany into a united Europe and in order to do that France also has to bind herself into that same union.

These motives were prevalent in the minds of the statesmen in the late 40s and early 50s. They are prevalent today in the minds of political leaders in Europe because today Germany is much stronger and much bigger than it has ever been—80 million people. By the way, the territory is very small, about the size of British Columbia. Think of 80 million people on the soil of British Columbia. Germany seems to be very big if looked upon by our neighbours and a little bit too big for some of them. And of course, nobody will forget Auschwitz and the Holocaust.

If the integrative process fails, Germany will become dominant. In the case of failure of the common European currency, Deutschemark will become the dominant currency in Europe thereby leading to the dominance of the German central bank, the German private bank, the commercial banks, insurance corporations and so on. That would easily lead to a situation as in 1914 where the others in Europe coalesced against Germany. It is therefore the vital strategic interest of my nation to bind ourselves into that union and to make the European integrative process a success.

This was understood by Adenauer 46 years ago. It was understood by all his successors, myself, my successor Willy Brandt, and the present Chancellor in Bonn, Dr. Helmut Kohl. Although we have been fierce political antagonists, I am assisting him in bringing about one single currency. In the same fashion every French president after de Gaulle has pursued the same policies for the same overriding strategic motive.

I expect the integrative process in Europe to be continued. Why do I expect that? Because I have seen it developing for more than four decades. I've been participating in that process and so far we have been able to overcome five major crises of the process. The strategic motives have been strong enough to overcome all these crises. I guess we'll also be able to overcome the present crises—the post-Maastricht crises.

I've been asked what would be the effect of one currency in Europe on Canada's agricultural interest? Let me say that the common agricultural policy of the European Union, in my view, is and has been from the beginning a grave mistake and is a mess right now. The change of currency to Euro will not have any effect on this agricultural nonsense. There is an inter-governmental conference underway in Europe between the 15 member governments in order to review the institutions of the European Union, particularly, under the aspect of enlargement—of taking in Poland, Hungary, the Czech Republic and maybe others. This review will quite certainly lead to the insight that the financial costs for the agricultural policy cannot be maintained, particularly if new members join the community. Therefore I have some hope that not the common currency but this inter-governmental conference, so-called Maastricht Two, will at least diminish the impact of our agricultural policies on the rest of the world and also on you.

I've also been asked about the Trans-Atlantic Free Trade Area and its auspices—so-called TAFTA. Well let me frankly say I regard this to be merely a trial balloon. The British like it of course because they want the whole European Union to be demoted to merely a free-trade area. The other 14 members of the European Union, however, want to give high priority to the common currency, to the institutional reform of the European Union and strategic priority to the continuation of the integrative process inside the European continent. Right now the greatest concern in Europe is not trade. The greatest concern in almost every country in Europe, including my own country Germany, is unemployment. People understand the necessity to reign in public spending and deficits as in Canada and the United States, but this in itself will not decrease unemployment. It will certainly not decrease unemployment soon. All of them are looking for strategies that might lead to a diminution of unemployment. Germany is in a particular predicament here. Every year since unification we have been transferring budget money and social insurance money from West Germany to East Germany in the order of 150 billion Deutschemarks, equivalent to a $150 billion Canadian. On top of that the West German private enterprises have been transferring a considerable sum of almost 100 billion Deutschemarks to East Germany, partially for investing in real investment, partially for subsidising existing enterprises every year. This is an enormous burden.

In addition to this particular German problem we have another problem—our high wage levels, compared to those of our new competitors in the Far East, in South East Asia, in China, in India or even in the United States, Canada and Eastern Europe. Therefore, in Germany unemployment is slowly on the rise and will even rise if we get back to considerable economic growth in GNP. There will be some cuts in welfare benefits and of course in the labour-related social fees and in taxation. There will be some slowing down of the habitual upward movement of our wage levels but we will certainly not allow ourselves to create a new underclass of working poor like the United States of America. We might do away with the exaggerations of the welfare state like Sweden, Holland and others in Europe but we are not going to do away with the welfare state on principle.

Our problems are found to some degree in all developed industrialised economies. If one puts this into historical perspective, it seems to me that over at least the last half of the 19th century and over the first three-quarters of the 20th century, Europe and North America had two great advantages over the rest of the world—first, an enormous lead in scientific and engineering knowledge capabilities and second, a high degree of savings and capital formation. Within the last 50 years Japan entered this group of privileged nations. In the last 25 years, some others as well have joined this group, Korea and Singapore, for example. Since the middle of the 70s the globalisation of markets for manufactured goods and financial markets has been erasing those two advantages which we have enjoyed in the latter half of the last century and in the first three-quarters of this century. Many countries nowadays, given globalisation, easily acquire western knowledge and capabilities. In addition, the free-flow of capital in all its forms has erased the advantage of high-capital formation at home in our own countries.

Capital today is seeking its profits worldwide—not just at home. At the same time, the savings rates in the western countries is decreasing. We are not saving as much as we did 20 years ago, 30 years ago. That's true of your country, true of my country, true of the United States, true of all the industrialised countries with one exception—Japan.

These developments have enabled high real investments in the upcoming developing countries including China, India, Indonesia, and Vietnam and have benefitted Hungary, Czech Republic, etc. It's good for all these newly arising economies as long as they can manage to keep their own production costs, such as wages, below the level in our industrialised societies. They will become fierce competitors for ourselves, for yourselves. Our societies' industrial enterprises are downsizing and cutting jobs and new jobs are going to be created in the benefitted countries overseas.

It seems to me that the old industrialised countries now regard Canada as belonging to their world as you have belonged to the Group of Seven for 20 years now. The old industrialised countries have a choice among three avenues. They can accept high unemployment plus a general decrease in their average real standard of living for their people or secondly, they can revert to protectionism including regulation of capital outflow, for instance, and creating barriers against imports of cheap goods from East Asia. There are temptations to do that and you can see this almost every week in Washington. You only need to listen to the speeches that are being made in the House of Representatives and in the Senate. But the United States is not the only one that is being tempted to go for protectionism once again. The third avenue would, of course, be the best one, namely to try to considerably enhance again the national savings rate and even more important to enhance basic scientific research, plus the application of the results to our own industries in order to enable ourselves to produce and offer manufactured products and offer services which the newly upcoming economies cannot offer as yet. It doesn't seem to me that this third way is being applied quickly enough and sweepingly enough so I have the sad feeling that for a couple of years or so unemployment will stick with us and the temptation for going protectionist will loom large. The average unemployment rate in the European Union right now stands a little above 10 per cent which many people find unacceptable.

Germany is a special case again in this scenario because the people in East Germany, the former Communist GDR, have never experienced a democracy in their lifetime. Except the few people who are in their middle-80s and grew up before Hitler's dictatorship, they have never experienced a market economy in their lifetime. They have lived only under dictatorships. In 1990 they were told democracy is the one good thing and the market economy has led to high hopes and illusory expectations. Today, there is deep disappointment particularly due to the loss of more than 40 per cent of the East German jobs that did exist under the Communists and that have been eliminated because the products that were produced in those jobs were not good enough for competition with the European Common Market—not good enough compared with West German, Dutch, Belgium, France, Italian, Danish products, what have you. As a result, there is an enormous degree of unemployment in the eastern part of Germany today. I am convinced we are going to overcome that but it will take between 10 and 15 years until we come to equality of productivity and standard of living between East and West Germany.

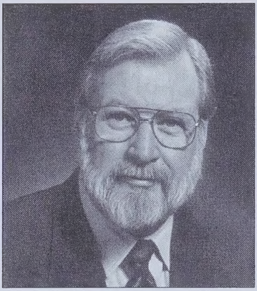
The political psychology inside this newly united country will also change. This psychological change is hampered by the fact that, since 1990, Germany has taken in millions of refugees from Russia, from the Balkan peninsula, from Turkey and from several countries in black Africa. Of course, if you have unemployment at home due to many foreigners—uninvited foreigners—then quite a few people get angry, particularly young people who can't find jobs for themselves. But mind you, there is no chance for Communist resurgence nor is there any chance of resuscitation of Nazism.

Whenever you read stories in your papers or listen to them on your electronic media about an alleged rebirth of Nazism or of neo-Nazism in Germany don't take it seriously. It is just sensationalist reporting. The one outstanding neo-Nazi distributing Nazi propaganda inside Germany is an American sending his propaganda into Germany by international mail. He incidentally is on criminal trial and deserves to be sent to jail.

Now ladies and gentlemen, let me conclude my long story by stating that there is high regard in my country for Canada, particularly for Canada's participation in and contribution to NATO as well as for Canadian contributions to the United Nations and to its peacekeeping operations in various parts of the world. The sympathy for Canada is common in Germany not only among the political class but also among the people and the man in the street. Everybody knows about the liberal climate of your democracy. Everybody also knows about the good bilateral economic and cultural relations between Canada and Germany. I must have been a visitor to your country more than a dozen times. About a half a million German visitors come to Canada every year and spend about a $0.5 billion, which is a little contribution to your balance of payments.

Well, ladies and gentlemen I look forward to the continuation of our good relationship and I wish you Canadians all the best. Thank you very much.

The appreciation of the meeting was expressed by Douglas Derry, Partner, Price Waterhouse, President, The Empire Club Foundation and a Past President, The Empire Club of Canada.



May 29, 1996

Douglas Lindores

Secretary-General and CEO, The Canadian
Red Cross Society

THE ROLE OF THE CANADIAN RED CROSS SOCIETY

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Paul Scargall, Partner, Borden & Elliot and a Director, The Empire Club of Canada; Steve O'Hearn, Senior Vice-President, Times-Mirror Professional Publishing (Publishers of the Red Cross water-safety and first-aid programmes); The Rev. Canon John Erb, Rector, St. Michael and All Angels Church; John Finley, Senior Partner, Smith Lyons Torrance Stevenson & Mayer; Ann Curran, President, Curran & Associates, President, Lewis Companies and a Director, The Empire Club of Canada; Hughes Eng, Chairman, The Confederation of The Metropolitan Toronto Chinese-Canadian Organization; and Kroum Pindoff, President, Pindoff Record Sales (Donor to the Bosnian relief efforts of the Red Cross).

Introduction by Julie Hannaford

If you survey the list of speakers who have occupied the podium of The Empire Club from 1903 forward, one overriding element of these speakers unites them: while the speakers are prominent in the history of Canada and often of the world, what our speakers told us about were both triumphs and tragedies.

Why is this important? It's important because history consists of the celebration of that which makes humanity better and the education that arises from being humbled by our mistakes. If we are to continue as a forum for those persons who shall take a place in our history, we must accept and in fact welcome those who have the courage to talk to us about the mistakes of the past as well as the hope for the future.

And so, in bringing our guest, Mr. Lindores, to the podium of The Empire Club, one condition was imposed upon the remarks—that was to address frankly, on behalf of the Canadian Red Cross, in some way, at some point, the events of the past, and more particularly, what some have called the death of the gift of life.

In agreeing to do so, our guest today should be commended, and in bringing Mr. Lindores to you today, I can tell you that he is eminently qualified to take on this task.

By way of background, Mr. Lindores was an Aircrew Officer, Royal Canadian Air Force (1956–1962); Assistant Personnel Manager, Ex-Cell-O-Corp. of Canada Ltd. (1964–1965); Commercial Secretary, Canadian diplomatic missions in Kuala Lumpur, Paris and Kinshasa (1973–1977); First Secretary, Permanent Mission of Canada to the United Nations, New York (1973–1977); Director, United Nations Programs, CIDA (1977–1979); Vice-President, Multilateral Programs Branch, CIDA (1979–1987); Assistant Secretary to the Cabinet, Privy Council Office (1987–1988); Senior Vice-President, CIDA (1988–1993); and Secretary-General and Chief Executive Officer, The Canadian Red Cross Society (since April, 1993). That start date is significant for when Mr. Lindores agreed to become Secretary-General of the Canadian Red Cross, he did so knowing that the glamour element to his job might be minimal for at least some period of time.

If you would have asked anyone in 1980 in Canada what the Red Cross meant to them, he or she most likely would have called to mind images of life saving. For those of us who grew up in the fifties, sixties and seventies, the Red Cross served by its actions to remind us that where conflict between nations and peoples resulted in combat, there was an altruistic society that provided assistance and care by embracing the principles of neutrality, humanity, unity and universality.

For those of us embittered by the compounding inhumanities, conflicts of nations, and continuous attempts of mankind to prove our inhumanity, the white flag with the Red Cross reminded us of a still true point of hope in our ever-deteriorating social fabric.

In 1983, Don Francis, speaking to the Centres for Disease Control and the world, asked how many hemophiliacs had to die before someone took seriously the idea that AIDS was transmitted in our blood supply. And so began the sea change in the way we looked at blood, and eventually, the blood delivery system in Canada and the world.

For Canadians, and the Canadian Red Cross, the slow and excruciating denouement of the tainted blood tragedy began on February 14, 1994, when The Hon. Justice Krever opened the hearings on the inquiry into the blood delivery systems in Canada.

For those who are touched by the effects of the mistakes made during the eighties in the supply and delivery of blood to Canadians, one thing is needed—closure.

For those who have died and are dying, there is nothing that can adequately address the suffering they and their families experience except for the acknowledgment of their suffering and the taking of responsibility.

For reasons associated with due process and a respect for ongoing court proceedings, Mr. Lindores cannot on his own behalf or on behalf of the Canadian Red Cross, address in detail the inquiry or the position being taken by the Red Cross with respect to the report.

But Mr. Lindores can (and he has promised he will) address, both the triumphs and the tragedies that now define the Canadian Red Cross. Taking credit is easy. Acknowledging mistakes is very difficult. But it distinguishes people and organisations—and most importantly it helps us to move forward. For taking on this challenge, Mr. Lindores must be commended. Please join me in welcoming to The Empire Club of Canada, Mr. Douglas Lindores.

Douglas Lindores

Thank you for the opportunity to speak, here, during this centennial year of our Canadian Red Cross. I say "our Red Cross" because the Canadian Red Cross is ours. You and other Canadians support it with their time, talents, blood and money. And as the Canadian Red Cross has earned this support in the past, we plan to keep on earning it.

How we plan to do this boils down to an apparent paradox: your Red Cross is changing—and remaining the same. To solve the paradox, you need to shift your point of view.

As a first step, I'd like to point out that the Red Cross is the sum of millions of personal experiences. My first contact occurred just after the Second World War when I took Red Cross swimming lessons. A decade later, in the military, I stepped off a train in the early hours of a cold prairie night to a warm greeting from Red Cross volunteers who handed out coffee and donuts. I wasn't the only young man on that train, that night, who welcomed the knowledge that someone cared. Years later and farther from home, but still in the military, I was well aware I served Canada under Red Cross protection through the Geneva Conventions. In my foreign service and aid agency careers, blood products from the Red Cross protected me from infectious diseases. When I was responsible for Canada's foreign disaster assistance programme I counted on the Red Cross for effective and honest programme delivery.

Nothing I've just said is extraordinary. Few Canadians haven't been touched by the Red Cross. Think about this: in 1945, one in four Canadians were active members of the Canadian Red Cross.

The Red Cross is also a narrative whose main themes are certain ideas.

The Red Cross was born on fields near an Italian town named Solferino. In 1859, an unknown Swiss businessman, Henry Dunant, passed these fields just after 300,000 troops had fought a battle. Some 40,000 dead and wounded had been left behind—without water, medical attention, food, care of any kind. Appalled by the suffering, Dunant rallied the people of Solferino and surrounding villages to minister to the wounded and comfort the dying. Dunant's work at Solferino taught him a lesson that changed history. The lesson—that we have a duty to end suffering—may be expressed in words. But it is meant to be expressed in action. Dunant expressed the lesson by spending the next five years going from one European capital to another asking those in power to create an organisation to deal with the misery of the sick and wounded in war. In 1864 Dunant realised his goal. The governments of 12 nations signed a Geneva Convention declaring that they would alleviate suffering on battlefields and that the Red Cross would have neutral status and use, as its flag of protection and neutrality, the reverse of the Swiss flag.

From this Convention arose the Red Cross and Red Crescent Movement, which has sheltered first wounded soldiers, then prisoners of war, then civilians in armed conflict and now, without prejudice, all people in times of natural or man-made disaster.

The Red Cross flag first flew in Canada following the Battle of Batoche in 1885. Eleven years later, Dr. George Sterling Ryerson and a group of like-minded citizens gathered in this city to form the Canadian Red Cross.

Since our days of offering assistance in armed conflict, we have grown. In the past century, we have set up community hospitals and outpost nursing stations. We have become involved in emergency disaster response, feeding programmes, international development and humanitarian assistance, first-aid training, home care, water safety and transfusion services. We teach teenagers about dating violence, lend sickroom equipment—and we operate one of Canada's largest biologics manufacturing operations. We sell jelly beans for 50 cents a bag—and negotiate half-billion dollar loans on financial markets to meet Canada's blood-product needs. Our senior policy meetings include representatives from 168 other national Red Cross and Red Crescent Societies—plus the governments of all states party to the Geneva Conventions.

From one point of view, a single theme brings unity to our work. This theme is the values of millions of Canadians over the century we have served here. The Red Cross is really about giving you a dependable and worthwhile way to show compassion, a way to act on the lesson Solferino taught Dunant.

From another point of view, what unites our work is our fundamental principles. Humanity: we act to relieve human suffering and save lives. Impartiality: we don't pay attention to race, religion, class or political opinion. Neutrality: we don't take political sides. Independence: we work with governments but not for them; ours is an arms length relationship. Voluntary Service: we aren't motivated by gain. Unity: there is only one Red Cross Society in a nation. Universality: we offer our services to all people.

Thanks to the principles, impartiality, neutrality and independence, we can pursue our strategic goal—to improve the situation of the most vulnerable—on some of the world's toughest stress lines. I speak of times and places afflicted by armed conflict. To visit and protect the vulnerable, we need access. To gain access, we need to be trusted. To be trusted, we must be impartial, neutral, independent—and discrete.

Governments favour practical, pragmatic assistance from a trusted intermediary. This was true during the Second World War, when we worked with Allies and Axis alike to help soldiers, prisoners of war and civilians. It's true today in Colombia, where we are the only international relief agency with access to the vulnerable in areas controlled by the government, rebels and other groups. And it was true in Oka, Quebec, in 1992, when we provided medical supplies and food to people in the community affected during the extended stand-off.

Our actions in Oka were not well understood or appreciated by all involved at the time. This type of reaction is not uncommon. It is true to some extent on the stress line we walk with our Blood Services programme.

We extended this programme from the armed forces to the Canadian public in 1947. Today, the programme collects about one million blood donations from 650,000 Canadian volunteers. It supplies 900 hospitals and clinics with products needed by 600,000 Canadians every year.

I mentioned that Blood Services is one of Canada's largest manufacturers of biologics. It employs 2,000 people across Canada with a budget close to $300 million. It depends on safe, efficient and sophisticated technologies to deliver products recognised by international experts to be as safe as any in the modern industrialised world. The programme is big money and high tech.

So far, then, it is the type of operation with which many of you would be familiar. But Blood Services also operates in a very special environment. An environment incredibly rich and complex in social issues. An extremely litigious environment, as you are all no doubt aware. And an environment in which the primary act, the act of giving blood, is an intensely personal one.

Quite rightly, I believe, Canadians do not see blood as a commodity. It is up to us, then, to reconcile the personal expression of caring for others, which is shown by donating blood, with our need to operate a large and complex manufacturing organisation and also with our need to raise funds for our non-blood activities. Frankly, in my 36-year career I have never faced as tough a challenge as this. But I must also acknowledge that alternatives for operating Blood Services pose even greater contradictions, even greater conceptual and practical difficulties.

To its credit, our Blood Services programme has gathered important allies. We count on many thousands of volunteers in addition to our volunteer donors. Many of our grass-roots supporters have given us money for blood research and other purposes. We have benefited from millions of dollars in free media support for our blood-donor clinics and other activities. Through the Canadian Blood Agency, we have reached important agreements with the provinces.

Of the Blood Services programme of the 1980s, I'd like to say that mistakes were clearly made. I've said before that harsh judgments based on hindsight are unfair. I still think this. Mankind has not yet mastered nature.

The Red Cross supported setting up the Commission of Inquiry on the Blood System in Canada. We co-operated fully with it. And with other parties we have moved to correct deficiencies in the national blood supply system. The Commission was originally scheduled to report in September 1994. Most recently it was scheduled to report in September 1996. Now it appears this date will slip as a result of recent court action by the Red Cross and others. You may have heard or read many things about Red Cross involvement in this court action. I'd like you to know that the Red Cross has never objected to possible negative findings against it. We have been steadfast in learning from mistakes and in acting to strengthen the blood system for the future. But we have also launched a court action against the Commission. We did this because we believe that the types of allegations made in our notice of possible findings, particularly those that imply civil or criminal liability, cannot be made in the light of the Commission's mandate and, perhaps more importantly, in the light of the process the Commission followed. We may be proved right. We may be proved wrong. Honourable people on both sides of the issue have strong and opposing views. We believe in the rule of law and will accept the eventual findings. Deeply disturbing, however, has been the near-universal condemnation of our challenge to the notices. Few people have paused to consider issues such as due process or the role of public inquiries in the modern legal environment. As I say, the matter is before the courts.

Meanwhile, the Red Cross has welcomed federal Health Minister David Dingwall's initiative to review governance of the national blood supply system. It comes at a time of change within the system. With the provinces and territories and the Canadian Blood Agency, the Red Cross has made a great deal of progress in areas like roles and responsibilities, as well as in working arrangements. We have also begun and partly completed a fundamental transformation of our blood-related operations across Canada.

But the national blood supply system is much larger than our Blood Services programme. Beyond the Red Cross, the Canadian Blood Agency and the provinces and territories, it embraces Health Canada, our federal regulator, and many other stakeholders. This suggests a stronger role for the federal government than it has played to date. We believe that broader policy development for the entire system will require federal leadership and co-ordination.

In particular, from Health Minister Dingwall's initiative the Red Cross is looking for some overriding body that will provide clear public-health policy direction to help us to balance difficult safety cost-benefit decisions. To date, we haven't had this direction—and have been left to defend our actions without a national blood policy or clear government direction on a case-by-case basis.

When I turn to the future, I see blood products that will never be entirely risk-free. The raw material for our products is manufactured by individual human bodies. Each unit of blood we collect reflects a portion of a person's life, including everything to which the person was exposed.

In spite of its small and ever-diminishing risk, I believe blood will continue to be one of the pillars of modern medicine. I believe this because I don't think artificial blood substitutes or alternative blood-utilisation techniques will replace blood products in my lifetime.

Some products and techniques, however, will reduce blood usage—and the Red Cross supports these. The Red Cross also supports the continued, judicious use of blood by physicians. And the Red Cross supports stakeholders who have felt ignored in past discussions about the national blood supply system. I speak in particular of groups whose members use blood products every year and who should be at the table when system-wide policies affecting their interests are discussed.

The future role of the Red Cross in the national blood supply system depends on many factors. We have prepared ourselves to move forward in the role we currently fill as blood programme—not blood system—operator. We've done this through the coast-to-coast transformation of the Blood Services programme I mentioned—and through safety-related, multi-million dollar computer and regulatory compliance projects. At the same time, we have negotiated agreements with our partners to better enable us to deliver increasingly safe blood products to Canadians.

Of course, what matters isn't whether or not the Red Cross would like to remain the operator of this nation's blood-supply programme. What matters is whether this is in the best interest of Canadians. On this question, Canadians and governments will have to reach their own conclusions. Blood Services is an important programme to the Red Cross. But we're much more than our blood programme. As we look forward to our second century of service in Canada our resources are needed as never before. Everywhere governments are hard-pressed to answer these needs—and so the burden falls increasingly on shoulders outside those of government.

Creative approaches will be required. Amongst others, we intend to work together with the private sector where our guiding principles and their corporate objectives intersect.

With Bayer Inc. we've formed a strategic alliance to build and operate the world's most modern plasma fractionation facility. For our risk our rewards are a safe and secure supply of blood products. For governments, the savings on the purchase of plasma products to Canada's health-care system—and taxpayers—will be on the order of $4 million to $5 million a month.

A strategic alliance with Mosby Times-Mirror Publishing has allowed us to introduce the world's foremost tools for teaching first aid. A strategic alliance with the Canadian Tire Child Protection Foundation has allowed us to modernise all of our teaching materials and put water-safety information into the hands of Canadians through the Canadian Tire national network of stores and gas bars. Manulife Financial, chartered banks, Hydro Quebec and many others have all committed to important programmes of blood donor recruitment and service.

These alliances provide significant financial support, as well as technology and expertise, to the Red Cross. Perhaps more important, they marry the managerial and technical skills of the private sector with the social motivation of the non-profit organisation. Many hundreds of thousands of people benefit as a result.

Before I stood up here today, I was asked what the people of Canada can expect from their Red Cross as we approach and pass into the next millennium.

To return to the beginning of my remarks today, from their Red Cross Canadians can expect both more of the same—and change. We will continue to be led by our fundamental principles, our mission and our strategic goal. We will continue to play our part as a member of the world's most respected international humanitarian movement. We will continue to answer the calls of governments and other groups whose vulnerable people need assistance. And we will continue to depend on the generous support of Canadians, who give us their time, talents, blood and money. But, with Canada and the entire world, we will change to meet new realities. Specifically, we plan to continue our work in three areas of fundamental importance to us: speed of response, quality of performance and value for money. Our priorities in these areas are no different from yours. Acting on these priorities will help our major programmes deliver safer products more efficiently and better programmes more cost-effectively.

To put the priorities into action, we have redesigned the Red Cross management structure. Our new regional structure promises stronger local presence, stronger professional programme support and stronger national systems. I believe that this reform of programmes and systems will, when fully implemented, revitalise the Canadian Red Cross.

After you have left this comfortable room and returned to your own activities, I would ask you to take a few moments to think about the work of the Red Cross and about how you could participate in it. If it is relevant to your professional position, please don't overlook the possibility of an alliance. If you have an idea—call us. Give us the opportunity to develop the idea with you. We would work together to find the special way that you and the Canadian Red Cross could co-operate for the good of those who desperately need it. It takes courage and generosity to open your heart to these people. But the reward of service to humanity is a lasting one. And so I would also like to ask you, as individuals, to build into your busy schedules the acts that will allow you to reap the reward of humanitarian service. Become a part of our 100-year-old tradition. Volunteer your services. Volunteer to donate the gift of life, your blood. Write a cheque and send it to the Canadian Red Cross. Or do all three. As do friends for life, let's work together.

Thank you.

The appreciation of the meeting was expressed by Ann Curran, President, Curran & Associates, President, Lewis Companies and a Director, The Empire Club of Canada.

June 26, 1996

A joint meeting of The Royal Commonwealth Society and The Empire Club of Canada

His Excellency, The Rt. Hon. Roméo LeBlanc

Governor General of Canada

A LONG TIME AGO IN THE FUTURE—CANADA YESTERDAY AND TOMORROW

Chairman: **Catherine Charlton**
Chairman, the Royal Commonwealth Society, Toronto Branch and a Past President, The Empire Club of Canada

Head Table Guests

Thompson Ramautarsingh, Member of the Senate, Wilfrid Laurier University, Member of Council, the Royal Commonwealth Society Toronto Branch and Chief Examiner of the Commonwealth International Essay Contest in Ontario; Peter Hunter, Chairman, MacPhee Jesson and Honorary Lt. Col., the Governor General's Horse Guard; Alexander Edmison, grade 7 student, Deer Park Junior High School; Ed Badovinac, Professor of Telecommunications, Department of Electronics, George Brown College, Sr. Vice-Chairman, the Royal Commonwealth Society and a Director, The Empire Club of Canada; The Rt. Rev. Terence Finlay, Tenth Anglican Bishop of Toronto; Fredrik S. Eaton, O.C., B.A., LLD, Chairman of the Executive Committee, Eaton's of Canada Ltd. and former High Commissioner for Canada to the United Kingdom of Great Britain and Northern Ireland; The Hon. Madam Justice Mary Lou Benotto, Ontario Court, General Division and First Vice-President, The Empire

Club of Canada; Her Excellency Mrs. Diana Fowler LeBlanc, CC; Willis Blair, Secretary, The Empire Club of Canada; Douglas Derry, FCA, Partner, Price Waterhouse, President, The Empire Club Foundation and a Past President, The Empire Club of Canada; Youssef Nasr, Executive Vice-President, the Hongkong Bank of Canada; The Hon. Barnett Danson, P.C., Honorary Director, The Empire Club of Canada; MGen. Bruce J. Legge, CMM, CM, KStJ, ED, CD, QC, Honorary Life Chairman, the Royal Commonwealth Society in Canada, Past President, The Empire Club of Canada and Past President, The Empire Club Foundation; and Julie Hannaford, Partner, Borden & Elliot and President, The Empire Club of Canada.

Introduction by Catherine Charlton

It is a great pleasure to welcome their Excellencies to this Canada Day luncheon. We are glad that you are here to visit our two clubs as Canada celebrates another year, and trust that this will be the first of many such visits.

There could be no more appropriate occasion for the Commonwealth Society to meet its Patron in Canada, or for The Empire Club to welcome its Honorary Chairman, and we are pleased that this first visit to the two clubs should occur as we celebrate our heritage.

Both organisations have a long history of association with our Governors General, and we are pleased that The Rt. Hon. Roméo LeBlanc has chosen to continue this tradition of vice-regal patronage.

As a Past President of The Empire Club, I take pride in knowing that a former Governor General, The Rt. Hon. Roland Michener, served as President of the Club in 1963–64—even if only for part of a year, before he was appointed Canada's High Commissioner to India.

If we were to make a collection of addresses delivered by our Governors General over past years, it would provide a fascinating survey of the times. The messages would reflect the changing fabric of the country parallel with its enduring association with the monarchy of Canada, and our place in the Commonwealth of nations. Today, we have the opportunity of adding to this important record.

The Rt. Hon. Roméo LeBlanc assumed the post of Governor General on February 8, 1995, following 23 years of public service in the House of Commons and the Senate of Canada. He was appointed a Minister of the Crown in 1974 and served in cabinet until his appointment to the Senate in 1984. In 1993 he became Speaker of the Senate.

His long experience serving in the federal government, supported by his upbringing in New Brunswick, gives him a unique perspective on Canada. We look forward to his message today which comes with the fascinating title, "A long time ago in the future—Canada yesterday and tomorrow."

Roméo LeBlanc

To address your two clubs would be an honour in any circumstances. It is all the more so at a Canada Day luncheon.

This is a time when Canadians are proud of our country's stature in the world, but puzzled about our internal state of mind. I usually hesitate to venture on this terrain, because I have no magic potions, nor do I have a mandate for dealing with day-to-day questions. But today I will reflect on our history, and give my views about the nature of this country. And in that, some of you might see suggestions about our common future.

We all see Canada as a model of openness, tolerance, and generosity, a country of perseverance and progress. You have heard similar words before. Some would say they are clichés about our national character. But there is a rival cliché. People used to talk of Canada as inward-looking, timid, anonymous. Margaret Atwood found in our literature, French and English, a "sombre and negative" tone, and a preoccupation with mere survival. Northrop Frye, and I quote the "Canadian Encyclopedia," saw in our literature "a 'garrison mentality' of beleaguered settlers who huddled against the glowering, all-consuming nothingness of the wilderness."

So what is our true nature: generous and open, or a garrison mentality hiding from the world?

Often a crisis will reveal character. So let's look back at the greatest challenge that Canada faced in this century. In 1933, Adolf Hitler came to power. Twelve years later, he had taken over a good chunk of the world and lost it. Concentration camps had shown us new depths of horror. Fearful memories of the Dust Bowl and Depression remained with us. Western empires were collapsing, and Communist empires coming into being. The atomic bomb and Cold War had launched half a century of nuclear terror.

One might have been pardoned for adopting a garrison mentality. But how did Canadians respond in real life? I have here a book of Empire Club speeches from 50 years ago. Speaker after speaker put forward to your club the most generous and enlightened ideas, and talked about Canada's leadership role in the Commonwealth and the world. As an example, I will quote Dr. Robert McClure: "For the white members of the Empire, we have shown what can be done to develop nations to their full stature and then unite them with mutual bonds across oceans. That same vision must now be applied across racial boundaries. ...I believe in Canada's destiny. I believe we have a job of work to do that can be done by no other nation. ...I feel that our whole history has brought us to this place where we can make this contribution...."

Those old speeches, ladies and gentlemen, showed not a garrison mentality but a generous worldwide vision. Did we live up to it? Let's glance at the record.

What about the Commonwealth? John Diefenbaker led the fight against racism in South Africa, and Canada helped give the Commonwealth a moral core. The Royal Commonwealth Society today, under the patronage of Her Majesty and the Queen Mother, reflects that rich international tradition.

Canada helped build the United Nations and NATO. Louis St. Laurent and Lester Pearson invented modern peacekeeping during the Suez Crisis. Since then, we have taken on more peacekeeping missions than any other nation. It is easier to count the dead on a battlefield than the lives saved by peacekeeping, but I suspect they are in the millions. And Canada remains a master of honourable, peace-making diplomacy.

We have opened our hearts to new Canadians. In the last half-century, Ontario alone welcomed three million immigrants. When shiploads of aliens in strange clothes suddenly show up on the beach, people in some countries might look for their guns. When that happened on our Atlantic coast, Canadians met them with coffee and sandwiches. Our books and music have reached around the world.

This very week, our Prime Minister represents Canada as a member of the G-7 nations in Lyon. In our country, the fears of old age, of sickness, of unemployment have diminished, because of our social safety net. And I recently created a new Governor General's award for volunteers, because Canada may well have the most generous volunteers on earth.

If indeed our literature was sometimes sombre and inward-looking, that reflected Canada's great challenges: the vast distances, the harsh climate, the wide diversity, the scattered and often isolated communities. But the response to those great challenges has been even greater. Canadians have reached out to one another and to the world. And despite our sombre negativity, we have even made people laugh. I could mention all the Canadian comedy writers here and in the States, or even Wayne and Shuster, if I dared to differ with Margaret Atwood.

What lies behind our success? Our children may sense that Canada has come a long way, but they have little idea how we got here. Our schools sometimes seem to hush up our history, as if they fear to awaken old divisions. And some Canadians use history only for self-criticism, digging up the darker incidents. No one is proud of the war-time internment of Japanese-Canadians, or the turning away of the Komagata Maru, or the hanging of Louis Riel, or of the obstacles raised against French schools and language in most provinces, or of the expulsion of my

Acadian ancestors. Tragic events took place, and I do not dismiss them. But Canada kept growing because, over time, co-operation and accommodation become the keynote of our character.

The first sailboats that crossed the Atlantic had brought with them old quarrels and prejudices. Canada began as a huge reserve of fish and furs and forests for Britain and France to fight over. But gradually we learned a few things. Settlers discovered that they needed one another. They were learning what the natives already knew. Alone, no one can survive in this country. So conquerors didn't build Canada. Neighbours did. Those who fear discovering old divisions in our history miss the point. The divisions were already there, inherited from Europe. But in the new world we formed new alliances, first among the people within communities, and then among the different communities. Gradually we washed away the blood feuds of Europe, and almost took a new baptism from the soil.

Quebec schoolchildren today may learn of the 1837 rebellion on the banks of the Richelieu. Ontario children may learn of William Lyon Mackenzie's rebellion in the muddy Toronto of the time. But few Canadians learn of the connections between them. In the years following those rebellions, the political alliance between Robert Baldwin and Louis-Hippolyte Lafontaine shaped our country. Today those fundamental reformers are forgotten. But the seeds they planted never stopped growing.

The quarrels of Europe gradually gave way to Canadian compromise. Confederation built a self-governing country sea to sea, and a form of federal power-sharing new to the world. Sir George-Étienne Cartier spoke of different races and religions set down like great families beside one another, not giving up their heritage, yet belonging to a new political nationality.

That vision still prevails. When new Canadians become citizens, we do not ask them to give up their culture, their religion, or their language. We only encourage them to work together with other Canadians. Our country perhaps more than any other respects the concentric circles of identity. I am a LeBlanc, from Memramcook. I am a proud Acadian and a proud New Brunswicker. But beyond all that, I am a proud Canadian, because Canada is the widest circle.

Yes, Canada's record has its stains. But future historians will marvel at our success. In less than a century and a half of nationhood, we have vaulted into the first rank of countries. When the United Nations names Canada as the best country in which to live, and when people around the world seek to come to our country above all others, our typical response is often to poke holes in our own image.

This country has a long list of individual heroes, from warriors like Billy Bishop and Leonard Birchall to the healers like Banting and Best and Bethune. And we have great collective accomplishments like those of the Mounted Police, or the peacekeepers, or the pioneers who settled the West. But we recognise our heroes only in spite of ourselves. We are perhaps the only country to have become great without a strong sense of symbols and history. The historian Jack Granatstein recently wrote about this collective amnesia; and he concluded that it is no wonder "why so often we are condemned to repeat the past, as if the problems we face were unique to our time."

I hope the CBC's projected series on our historical roots, or the work of the National History Society in Winnipeg, will teach Canadians more about their past: not just to magnify old conflicts, but to show the resolutions. I am told that there is a proverbial phrase among the Inuit: "a long time ago, in the future." Let the children see our history, and maybe it will help to shape the future.

Most countries would think themselves blessed if they had no more problems than Canada. That being said, there is always something going wrong, and always will be. And one example today should concern us all: the aboriginal peoples are only beginning to find their rightful place in Canada.

But there are always many problems: regional stresses and strains, economic rivalries and resentments, cultural clashes.

Today, some of those questions have surfaced in Quebec. It is true that pollsters keep concluding that given a clear question, most Quebeckers will vote to stay Canadian. But to many people, Quebec remains a preoccupation and a puzzle. It is always well to remember that the same land shaped all of us; the same history made us partners; and the same virtues prevail in Quebec as in the rest of Canada, including openness and tolerance. Some people outside Quebec would question that statement. Some charge that nationalism has become the new religion, and that if any part of Canada has a garrison mentality, it is Quebec. Well, let me speak as a Canadian of French origin. If we have a garrison mentality, how did we explore this country and help create Canada in the first place? Quebeckers reached out in the past to other Canadians. The Quiet Revolution sprang not from nationalism, but from reforms in education and other spheres which not only caught up with the rest of Canada, but sometimes took the lead. Some would say that without the protection of the Canadian federal system, and without mechanisms such as Radio-Canada, French language and culture might have disappeared years ago. And with that I agree. But let's look at English-speaking Canada.

In recent decades, this country has set Canadian content rules for radio and television, has fought valiantly to protect Canadian magazines and newspapers, and has aided Canadian book publishing. Still, anglophone Canadians fear being swamped by the cultural superpower next door. If 20 million anglophone Canadians are that worried about their culture and identity, do not seven million French Canadians have some legitimate concerns, when they are surrounded by a quarter of a billion anglophones, putting not only their culture but their very language and identity at risk?

I have no specific prescriptions for national unity. The puzzles appear insoluble, just as the bitter pre-Confederation debates between Upper and Lower Canada looked insoluble. But our nation-builders solved those old puzzles, and Canadians have solved insoluble problems in every decade since, by determination, and with the help of time. Minority school controversies, conscription, the Great Depression, freight rates, flag debates, energy policies: all those questions were going to destroy Canada, and yet we are still growing. If our ancestors could create a new kind of country, could nurture it through World Wars and Depression, and could make it one of the most respected nations, are we today not gifted enough to find new solutions?

I am convinced instead that all Quebeckers will find their pride in Canada, because they know that you are never so much master of your own house, as when you open the door to your neighbours. I believe we will keep reaching out to one another, because it is the Canadian way to reach out. Generosity has always been our winning strategy. And the momentum of history lies with us. We will always have a huge country full of huge challenges. But so far, we have been big enough to live up to the land, and we are still growing. It was not easy victories that made Canada great; it was the challenges. Nation-building never ends. That is our curse, and that is our greatness. Generosity, patience, and openness have created here a new nation, a country with few equals, and a country we are still building. And if we can live up to the best traditions of our past, then this country will live forever.

The appreciation of the meeting was expressed by Julie Hannaford, President, The Empire Club of Canada.

July 25, 1996

Bill Gates

Chairman and CEO, Microsoft

A REVOLUTION IN COMMUNICATIONS

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Ed Badovinac, Professor of Telecommunications, Department of Electronics, George Brown College and a Director, The Empire Club of Canada; Gregory Ewert, President, Global One; John Tory, President and CEO, Rogers Multi-Media Inc. and Second Vice-President, The Empire Club of Canada; J. Robert S. Prichard, President, University of Toronto; J. D'Arcy Brooks, Chairman and CEO, Borden & Elliot and the sponsor of our distinguished speakers' table; Thomas Rahilly, Vice-Chairman, Co-Head Investment Banking, Richardson Greenshields of Canada Limited and the sponsor of our head table; Duncan Gibson, Executive Vice-President, Operations Division, Toronto Dominion Bank; Douglas Todgham, Vice-President, The Canadian Institute for Advanced Research and Third Vice-President, The Empire Club of Canada; Ken Troy, President, Reuters Information Services (Canada) Limited; Ken Nickerson, General Manager, Microsoft Network; James Downey, President, University of Waterloo; Ronald McKinlay, Chairman of the Board, Newcourt Credit Group Inc. and the sponsor of our student table; David Edmison, Director, Martin, Lucas & Seagram, Independent

Investment Counsel and Immediate Past President, The Empire Club of Canada; and Jeff Dossett, General Manager, Microsoft Canada Inc.

Introduction by Julie Hannaford

On a summer afternoon in a town outside Toronto, 122 years ago, July 25th, 1874, a young man was home for the summer vacation. He was then working in Boston. He had ideas and he was no doubt that day preparing to announce them to his father. He did so on July 26th, 1874. The announcement of this new idea, perhaps because it was so new, did not go particularly well. The young man's father recorded the idea in his pocket diary with no comment except a question mark. He described the idea in two words—"electric speech." The young man was Alexander Graham Bell and it was on November 1st, 1917 in his address to The Empire Club of Canada that he gave us not just the date and birthplace of the idea of the telephone, but also the scepticism that accompanied the launch of the invention.

And so we have one of the earliest recorded commentaries on technological innovation.

Interestingly, scepticism about technology continued well after Alexander Graham Bell's father recorded his own uncertainty about "electric speech."

In 1943, the Chief Executive Officer of what is now one of the world's largest information technology and computer manufacturing firms said: "I think there is a world market for maybe five computers."

Twelve years later, we find the editor-in-charge of business books for Prentice Hall telling us: "I can assure you that data processing is a fad that won't last out the year."

Finally, not to be outdone by the world's largest information technology and computer manufacturing firms, in 1977, the chairman and founder of another very large information and technology and computer manufacturing firm said: "There is no reason anyone would want a computer in their home." If nothing else, these statements do more than record the dissonance between the speed of technological development and the rate at which our imagination can absorb and project change into the future.

These statements also record the challenge that every creative imagination confronts and must surmount in order for innovation to prevail. If our understanding of technology has changed, and it is clear that it has, this understanding is in no small measure due to the imagination of our guest today.

Today, computers, multimedia and networking technologies are being used by tens of millions of people worldwide: to manage and operate their businesses, to educate and entertain their children, and to communicate with each other over vast distances.

We are no longer an audience for the unfolding of the technological drama. Today, we are participants in technological transformation. Smaller in size, easier to use and more powerful than ever before, computers, faxes, laptops and cell phones can be found in offices and homes across the globe. We are transforming the way we bank; the way we invest; the way we talk to each other; and at the vanguard of this transformation is Microsoft, a company dedicated to bringing people and technology together.

Tonight, we have with us a person whose name is synonymous, not only with Microsoft, but with the entire computer technology industry. Very few individuals can claim to have played as integral a role in transforming the way people work and communicate than our esteemed guest. His more than two decades of passionate labour and dedication towards making technology accessible to everyone, has created one of the most powerful and forward-thinking corporations in existence today.

Microsoft's mission remains much the same as when the company was first founded more than 20 years ago: to offer products and services for business and personal use, each designed to make it easier for people to take advantage of the power of personal computing. Today, millions of people worldwide use Microsoft products to create, communicate and share information.

As the largest independent producer of computer software in the world, Microsoft employs nearly 20,000 people worldwide. It has set the standard in the personal computer operating systems and desktop applications markets. Since launching the Windows 95 operating system last August, a product that has set the standard in easy-to-use computing technology, Microsoft has taken on a new leadership mantle, directing its vision and enormous resources to what many consider the greatest single technological innovation since the PC—the Internet. How will the Internet affect Microsoft's future? As our guest himself once said during an interview: "I'm very optimistic about the future. But it is a future full of change and surprises."

Ladies and gentlemen, to share his vision of what tomorrow may have in store for us all, and who may perhaps not like to be reminded of his own words spoken back in 1981, when he said: "640K should be enough for anybody," please welcome our special guest, Co-founder, Chairman and Chief Executive Officer of Microsoft Corporation, Mr. William (Bill) Gates.

Bill Gates

It's a very exciting time in the computer business. What I want to talk about tonight is not really the computer business, but rather how the advances in computer technology represent a revolution in communications and how this is going to reshape every business that there is today and even redefine the way we think of entertainment, the way we think of politics and perhaps most exciting how we think of education. Behind all of this there are some real miracle technologies. There is the miracle of the chip. Every two years, according to what's called Moore's law, chips become over twice as powerful and that means that over a period of 20 years, you get a thousand times the power that you had before. And that's without any increase in cost. In fact, the costs come down at the same time. It has changed the character of how we think of computing from being something that large organisations do to something that individuals do. As this progresses, the potential is not just for what Microsoft wrote down when it was started—that is a computer on every desk and in every home—but rather that people have computers in their pockets, computers in their cars, computers of all types. So many computers that you don't even think about them being there in the same way that you don't think about electricity or water as things that have transformed the way we live.

Chip technology keeps driving forward and that's why the pace here is so much faster than with other innovations. Another key technology is optic fibre. The amount of information that we can put through an optic fibre is increasing at an equally rapid rate. And so as you get a state-of-the-art chip and as you get fibre strung between all the different locations that want to communicate, in a sense you'll have unlimited capability and this will create a tool that people will use for any number of tasks. Right now we can see these things coming together because the PC and the Internet are complimentary. The more machines we have hooked up to the Internet the more valuable the Internet is. The more valuable the Internet is the more reason people have to get a machine, to hook it up and use it and receive what we've always called information at your fingertips.

Whenever you have a communications device it goes for a long time not being at critical mass and it's kind of a novelty. When people had fax machines at first they wondered who was going to send them a fax. A few years later everyone was expected to have one. It was very unusual if you gave out your business card and there was no fax number there. Well, the same thing is in the process of happening again. Everyone, I would venture to say, in this room within five years will have an electronic mail address and the ability to get messages from business colleagues and friends across the Internet.

Many of you will even have what is called the personal home page where people who are interested in your hobbies will have an address they can go to to get the latest information. So the Internet has achieved critical mass. A few years ago, I wouldn't have expected that to take place. I think a lot of people were caught by surprise. But that's the nature of a critical mass phenomenon; the minute it crosses over, the results are rather phenomenal. It is the biggest development since the original PC. The investment levels are incredible. The pace of innovation is incredible.

Somebody might come to you and say that the Internet is missing something. It's missing security and that's true, but there are 20 new companies that have been started up to solve that problem, as well as hundreds of existing companies like Microsoft working on it as well. In an almost paradoxical way, the weaknesses of the Internet have become strengths because people are diving in to get rid of them.

The one most difficult thing about the Internet is the speed at which we are all connected together. Within a company, you generally have what is called an intranet network and people are connected together at very high speeds, but when you want to talk to your branch offices, or people who are outside the company, you generally have to go across the phone network and today the speed that you get out across normal lines is 28.8K baud. The number is not important. What's important is that if you're trying to send pages that just have text, it is blindingly fast, but as soon as you start to get lots of pictures, the speeds are almost unacceptable—five to 10 seconds. Now, how can we improve this? Changing the phone infrastructure is very difficult. There is a way we can move up by improving the phone system called ISDN.

In competition with that we have the cable industry using their axial infrastructure to create what they call cable modems. This will give us speeds that are over 10 times faster and really solve the tough problems. They don't necessarily give us high-quality video but they give us everything else. So we are really looking forward to the competition between the phone companies and the cable industry to put that together. Eventually what we will get is the ability to deliver high-quality video between any two points on the planet. With these connections you will be able to watch whatever movie you want to, talk to whom you want, and see whatever lecture you want to see. There will be a bottleneck because even the most optimistic person says that it will take more than a decade before the majority of homes in the United States and Canada are hooked up. The United States and Canada are going to be at the forefront of this, with the exception of a few cities, like Singapore and Hong Kong, where they can take their high density and their very high-income levels and run early experiments. With those exceptions, the U.S. and Canada will be two to five years ahead of every other developed country. Developing countries and rural areas are even tougher and may require technological breakthroughs before they can be hooked up.

Being connected to the Internet is one of those things that's got a crazy momentum, almost unstoppable. Probably in the next couple of years, you'll read a lot about people saying, "Well, was it overhyped, was there too much expectation?" Although that cycle will take place, what we have here is the greatest change, probably since the phone came along, in the way people do business. An important element to keep in mind is how rapidly the PC itself will be changing. Five years from now, the speed will be a lot greater, the storage capacity will be dramatically greater, and we'll have flat screens that are very large. It won't just be the CRT like it is today; it will be the surface of your desk with lots and lots of information laid out there. We have a lot to do to make the PC easier to work with; make it easier to set up.

There are some great initiatives and good progress that have taken place so it's important not to think about it as something that is standing still. We'll have quite a variety of things that are hooked up. The PC will be the primary one. You'll also have advanced TV sets with new set-up boxes.

You'll have a computer in your car and you'll have something that you carry around in your pocket that hooks up to the wireless network, which we talk about as the wallet PC. It will always show you a map of where you are, give you your schedule and your latest messages. It will even have digital cash or digital tickets. We think of it as the wallet PC because it's a replacement for everything that you have to carry around today. You can even have hundreds of thousands of pictures of your kids to show other people. So there is a lot of change going on in the way we think about computing. We used to think of all these isolated networks. Every company had its own network and you had to go out to communications companies to lease all these lines and manage it yourself.

Well, now we're going to have one global network, based on the standards of the Internet which are things like TCP/IP. We're going to have one way to find information which is to get a page up, read the page and based on what it says, click on things and follow links that will replace the way that we search for files. It will replace the way we do help and it will be the same no matter whether the information is local to your computer or local to your current network or way out on the web. Information that you care about will be brought to you. The documents will all be linked together and it will be very personalised because you will be able to set up what you care about and the way you want to work with information and applications.

The kind of time-frame I've talked about for Internet being pervasive is five to 10 years. There are several places where this will happen even more rapidly. Intranet is the term for simply using the benefits of the Internet and sharing information inside a company and the idea is that if you have sales results, you put them on the network instead of printing them out. People have done that with the old networks, but it was just too hard for people to find the right file, to know the format. If you get confused, whom do you ask? It was too difficult. What you do now is just put a couple of links on somebody's computer desktop and whenever he wants to see the sales data, he clicks on that sales link and right there it describes for him exactly what's new. If you have a question, you click on a little thing that says that's the place to do it and you just type in what you want to know. Document exploration is made very easy.

You can use the current tools used to create documents and get to annotate those documents and view them in different ways. There is a huge payoff here because it's using the PCs and networks that are here today. There is no problem with the speeds because it's the local network. Every company can go in and think about scenarios that make sense for them.

We do many things using the network. When we have a charitable fund-raising campaign, our United Way Campaign, we send around a little mail message that says if you want to give your fair share, here's where to do it; if you want to be done with it, just click here and we'll never bother you again; if you want to know about the agencies and designate to them, then follow these links and find out in depth how agencies spend money, what they've done and what different people think of them. You can get involved at any level that makes sense for you. Even with things like personnel reviews, we send out a spreadsheet with the history information and you type in the changes. It's all done electronically so the amount of paperwork has been drastically reduced and the efficiency of being able to know what is going on is greatly increased. All the information about an individual customer is brought together in one place so everyone who works with that customer understands exactly what we're doing. In other businesses there are great examples of how this can be done. It requires stepping back and thinking about information flow. Technology is no longer a limiting factor.

As we move from inside the company to working with vendors and customers, we get additional scenarios. We get things like conferencing with your lawyer and talking while you edit a contract together or going to your bank and checking your statement, indicating you have some questions. We get information publishing, the ability to make travel reservations and deciding what insurance to buy. Today, when I want to buy an obscure book I go to the web and do a search command. There are many services and I can get the books delivered within 24 hours. Even products that you're not going to buy on the web, like cars, you can see how people have evaluated the latest models, see what they have thought. You can send mail to your friends asking their opinions on the Lexus or the Cadillac or whatever it is you're considering. It becomes a way of making intelligent decisions.

Now I'd like to give you a chance to actually see the web so I'll ask Ken Nickerson to come up and use our latest browser to show you some examples of what the web provides.

Ken Nickerson

Ken Nickerson demonstrated a web browser application showing the wealth of information available in the web about Toronto and Toronto businesses.

Bill Gates

Great, so there's the web as it exists right now. What we want to do is give you a sense of how this is going to improve. Most users of the web today are fairly sophisticated computer users but if you compare how easy it is to get information off the web versus just looking in the newspaper or calling somebody up, it's still a little bit harder to do. One of the fixes we need to make is when you turn on your computer, it's immediately there. Right now, it takes a long time to come up. We need to make sure the computer is out there finding information for you and helping you out by alerting you to things you might care about. Part of this we need to build into the operating system so that there aren't a lot of extra pieces to install and mess around with. Just one button you click on and there you go. Instead of having the pages just sit there, we want them to be very lively—almost like watching TV.

If you're interested in taking out a loan, you can type in what your income is and see what that means. If you see a new tax proposal you can type in your situation and see how it affects you. If you're reading about legislation, the computer will know your zip code and it will show you how your representatives happen to vote on that. You just click to send the mail and say that you agree or disagree with what they did.

In order to activate the web and bring it to life, we have to take programming tools and make them work on these web pages. We also have to let creative people—graphics artists and animation people, who have been working on films—come in and get involved here. In fact, the demand for people who are good at doing design is far greater than the number of people available today. If you are a web designer, a web master, with those skills, you are in hot demand and the salaries of those people are going up. We are building software tools that make that easier and easier. It will never be automatic. A word processor, as great as it is, can't write things for you, but it helps out. It gets rid of those mundane steps so there are a lot of pieces coming together here. For example, if somebody owns a store, a flower shop say, and he wants to offer people the ability to dial in and browse the flowers he has, make orders, and see the status of an order, we want to make that just a few weeks work for him to set it up and he doesn't have to know anything about computers. We are making building blocks that will go in and, because they are high-volume building blocks and because they're built on PC hardware technology, it's all going to be fairly inexpensive. So the kind of experience you get on the web will be far better than it is right now. Today, it is a lot better than it was a year ago. The kind of searching that Ken showed you previously, the richness of those pages, it's a step forward.

The next thing I'll ask Ken to show you is a little scenario which has to do with shopping and this is going to assume a few improvements that are coming out in the next year, a little higher speed connection, but I think you'll be able to compare that with what you just saw and see how much richer we expect it to get in a very short time.

Ken Nickerson

Ken Nickerson demonstrated a hypothetical purchase of ski equipment on the Internet showing how a customer can accrue a wealth of useful relevant information targetted to his interests.

Bill Gates

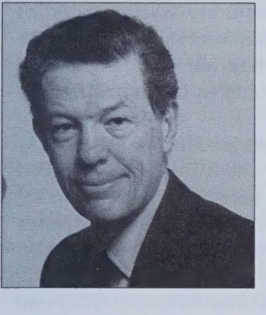
Great. So, we've talked about the hardware improving and some of the things that extra band width will be able to provide. There are some breakthroughs coming in software as well, and these are a little bit tougher for which to predict timing, but, given 10 years, I feel very confident all of these will happen. We'll be able to locate your behaviour and predict other things you're interested in. So, bringing up news will be very straightforward. We'll also be able to understand spoken speech. The computer right now can do a very good job of voice recognition. Demonstrations are good but whenever you get it out and start working with it, it has a hard time, particularly if you are working with a very large vocabulary. It certainly will re-define the way we think of the machines when we have that voice input. Another problem that's been very tough is handwriting input, being able to have a little tablet that understands what you're writing. A few years ago the industry came out with a number of products and they just weren't good enough. But, in a few years I think we'll try again and if that doesn't work, we'll wait another couple of years and try again. People are very demanding about the accuracy of these systems. Even though we're at 99 per-cent accuracy now, that's not enough. I think if we have 99.9 per cent accuracy people will gravitate to it.

A final kind of advance is the idea of the computer watching things. We're going to have little cameras in these computers to do video conferencing and that camera will be able to see when you get up from your PC, when you go back to your PC, who's sitting there. You'll be able to make gestures like scroll up the document you're reading or throw it away. If you gave it permission, when you send mail to someone, you could have it send back a little photograph of their initial reaction to what your mail message was. They wouldn't have to send you any type of response at all.

Having visual recognition really brings the computer into the environment. Even for game playing, you just pick up a little plastic steering wheel and start steering and it sees exactly what's going on there. It will be a very different device from the sort of clunky large thing we think of today.

I think it's important to keep in mind that kids who are growing up today are getting accustomed to having these tools available. In fact, we think the PC is such a great tool that most of the philanthropic things we're involved in have to do with access; making sure it's easy for people to get in and use this in the same way that society decided hundreds of years ago that libraries were a great thing because everybody should have access to books. It was a lot of fun this morning to go to a very impressive library here in Toronto and announce some work we're doing with them. That issue, having access, is only important if you believe as I do, that what we've got here is very potent and to the level of being something that will almost come to be defined as part of literacy. I really have no doubt about that and that's why I think it's great to start engaging government and companies and thinking about how we're going to get these things available. The future I'm describing is not without its challenges. People will worry, not only about the access issue, but about privacy; they'll worry about being left behind; people will worry about rural areas that aren't getting connected up. They'll worry about the kind of material, pornography, or otherwise that might be available through this medium and it's great to have people focus on those issues. I see this as a tool that will be used in education that will allow kids to pursue their curiosity, that will allow business to be far more efficient. I certainly see the positive side to this and feel very lucky to be involved in helping it all come together. Thank you.

The appreciation of the meeting was expressed by John Tory, President and CEO, Rogers Multi-Media Inc. and Second Vice-President, The Empire Club of Canada



September 19, 1996

A joint meeting of The Empire Club of Canada and the British Canadian Chamber of Trade and Commerce

Anthony Goodenough

British High Commissioner

BRITAIN IN EUROPE

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

John Smith, Senior Manager, Global Private Banking, Royal Bank of Canada and Vice-President, Central Division, British Canadian Chamber of Trade and Commerce; Keith Robson, Executive Director, Q1 Intermodal; The Rev. Edward Jackman, Historian, Archdiocese of Toronto; Peter Davies, British Consul General in Toronto; Diane Francis, Editor, The Financial Post; Sir Colin Ross Corness, Chairman, Glaxo Wellcome plc, visiting from London; Bill Laidlaw, Director, Government Relations, Glaxo Wellcome Inc. and a Director, The Empire Club of Canada; Peter Woolf, Partner, U.S. Corporate Tax Group, Price Waterhouse; Robert Dechert, Partner, Gowling, Strathy & Henderson, a Director, The Empire Club of Canada and President, British Canadian Chamber of Trade and Commerce; and John Wood, Vice-President and General Manager for Canada, British Airways.

Introduction by Julie Hannaford

It was a typical Toronto day, grey skies and even greyer slush, when the Maastricht Treaty first took form in December, 1991. The Maastricht Treaty was the first formal step toward legitimising the long-held dream of a Europe with one economic and monetary policy. In 1993, when the European Community was stripped of many intra-country differences, we in Canada were only dimly aware of the turmoil that followed. After all, we had our own problems—whether Murphy Brown's time slot was going to be supplanted by "Mad About You," for example.

Does anyone in the room remember where they were the day that momentous decision was made in a small Dutch town called Maastricht? I didn't think so, so I'd like to take a few minutes to set the scene for Mr. Goodenough and provide you with a Coles Notes version of the events that have shaped part of our guest's presentation today.

It really all began in 1947 when Winston Churchill said: "We hope to see a Europe where men of every country will think as much of being European as of belonging to their native land." That idea, once born, has stuck firm in the soul of Europe. Then, 40 years later in 1988, it was predicted, somewhat optimistically, that by 1988, 80 per cent of Europe's economic, tax and social legislation would come from a central point, Brussels.

Optimism was easy then. In 1988, Europe was in the middle of solid economic growth. The drive for a frontier-free market and a single currency seemed like a painless way to ensure continued prosperity. After all, economies were going global and national borders were becoming less meaningful, even detrimental to economic growth. Why not formally recognise the fall of economic nation states and the power of global capital markets?

But when the recession hit Europe in 1993 and political upheaval throughout Eastern Europe soared and the distinction between rich and poor countries sharpened, attitudes turned ugly. Voters decided that they cared more about jobs, immigrants and crime than about constitutional concepts for Europe.

In the years that followed up until today, the Maastricht Treaty has been rejected, reconsidered, reviled, derided, belittled and battered. It has been subject to countless interpretations, intra-country feuds and compromises. Yet it survives throughout the tensions and grievances and protectionist attitudes. The fact is that the idea of a unified Europe remains widely popular. The fact also is that the ideas and the debates about a unified Europe remain incompletely analysed and discussed here in North America, if those ideas are really discussed at all.

On July 25, 1996, The Empire Club of Canada was addressed by Bill Gates, President and CEO of Microsoft. If Mr. Gates' address communicated one thing, it communicated that a concept of boundaries are shifting, and the word "global" now that it has become an integral part of our vocabulary, implies that we are no longer in a position to take an interest in that which is occurring in Europe or Asia, or anywhere else, but rather, we are now stakeholders in the political, monetary and trading issues everywhere.

Our guest today brings with him a perspective and a background that makes him uniquely qualified to comment on the issues confronting the European union, Britain's role in the union and the effect and dynamic this will trigger in Canada.

After working first on South East Asia issues, Mr. Goodenough was posted in 1967 to Athens. Returning to London in 1971, he took up a position as the Private Secretary, first to the Parliamentary Undersecretary, and then to the Minister of State until 1974 when he was appointed First Secretary for Economic Affairs at the British Embassy in Paris. Mr. Goodenough returned to London in 1977 and until 1982 worked mainly on European Community affairs, including a two-year secondment to the European Secretariat in the Cabinet Office.

In 1982 he was posted to Islamabad as Head of Chancery, returning to London in 1985 as Head of the FAO's Personnel Policy Department. He was appointed High Commissioner at Accra, Ghana, in 1989 where he also served as U.K. non-resident Ambassador to Togo. In 1992, until his appointment to Ottawa, he was Assistant Undersecretary (AM-equivalent) in the FAO for Commonwealth and African affairs.

Ladies and gentlemen, to address us from a truly global perspective, please join me in welcoming Mr. Anthony M. Goodenough, British High Commissioner, to The Empire Club of Canada.

Anthony Goodenough

Good afternoon ladies and gentlemen.

I am honoured to address this joint session of The Empire Club and the British Canadian Chamber of Trade and Commerce. The Empire Club has a long and distinguished history, with many illustrious guest speakers, including Sir Winston Churchill, Margaret Thatcher and more than one U.S. president. I cannot hope to match their practiced oratory.

My theme today is "Britain in Europe" and I want to focus on three questions:

1. Why should Europe matter to Canada?

2. What is happening in Europe? And where is the EU going?
3. Britain is the gateway to Europe. Why?

Why should Europe matter to Canada?

I'll begin with a quote from a Report by the Standing Senate Committee on Foreign Affairs in July 1996:

"Right now, both Canada and the EU are occupied with their own agendas. The EU is engaged in an Intergovernmental Conference on the issues arising from deepening and widening the Union. For its part, Canada is working on new trade deals with Chile, Latin America and the Caribbean and the Asia Pacific region. Substantially stronger transatlantic commercial links need to be forged, so that the Canada/Europe relationship will be preserved and strengthened. Canadians cannot be indifferent… we have a very deep interest… in Europe."

That report urged the Canadian government to focus attention on Canada's links with Europe, and to follow more closely the debate in Europe about enlargement, plans for economic and monetary union and steps towards closer foreign policy co-ordination.

It called for action on both sides of the Atlantic to tackle the remaining trade barriers. It urged us to keep in mind the ultimate goal of transatlantic free trade—which your present High Commissioner in London, Roy MacLaren, and the British Foreign Secretary, Malcolm Rifkind, have championed so forcefully.

Yesterday Mr. Rifkind described the EU and the Atlantic Partnership as not just history's most successful model of international co-operation; but the world's most effective building blocks for global progress.

What does the relationship between Canada and the EU look like today? In the early 1970s, after the U.K.—then Canada's second-largest trading partner—joined the EC, the Canadian government sought to formalise its relations with the EC. A "Framework Agreement" was signed in

1976 providing the basis for EC-Canada co-operation. In 1990 this Agreement was complemented by a Declaration on EC-Canada Relations, which substantially broadened the political and economic dialogue between the two parties. There is now extensive co-operation on industrial policy, science and technology—Canadian institutions now have access to EU research funds—higher education and culture.

Earlier this year, the EU and Canada decided to take the relationship a step further. They agreed to draw up an EU/Canada Action Plan, identifying specific areas for closer collaboration, including economic and trade relations, transnational issues such as the environment, migration, terrorism, organised crime and drug trafficking. Unfortunately, it has not yet been possible to finalise this Action Plan. But the British government very much hopes that it can be concluded before too long and that it will act as a further stimulus to increased EU/Canada links, particularly in the field of trade.

To illustrate the importance of these links, let me give you a few facts. With 370 million people the EU is the world's largest single market, accounting for well over 20 per cent of world trade. After the U.S., the EU is Canada's largest trade and investment partner. Yet the proportion of Canada's exports which goes to the EU has fallen from 12.4 per cent in 1973 to 6.4 per cent in 1995—despite the EU's enlargement. Canada is the most trade-dependent country in the G7. As the Senate Committee report noted, if Canada had maintained its share of the EU import market at 2.2 per cent you would have exported about $4.6 billion more merchandise to the EU. According to the Senate Committee Report, in rough terms this might have meant about 50,000 more jobs for Canadians.

So the European market matters to Canada and developments in the EU are relevant on this side of the Atlantic.

What is happening in Europe?

To understand what is now happening in Europe it will help to look back at why the Community was formed in the first place. At the end of World War II the economies of most European countries were in ruins. The Soviet Union's political influence was expanding in Central and Eastern Europe. Faced with these challenges, the countries of Western Europe sought to co-operate. They wanted to strengthen their economies and ensure that wars between them would never occur again.

The Community's origins go back to the formation of the European Coal and Steel Community in 1951. The two key dates were the 1957 Treaty of Rome establishing the EEC of six members (Belgium, France, Germany, Italy, Luxembourg, the Netherlands)—which Britain joined in 1973 and which today is a community of 15 and the 1991 Maastricht Treaty which established the European Union, provided for a common foreign security policy and set a timetable for economic and monetary union. The next steps are currently being discussed by member states in the so-called Intergovernmental Conference.

At its heart, back in the Rome Treaty, was the vision of a single European market—the free movement of goods, services and people. Within the EU, Britain has led the drive for a single European market which is open internally and open to the rest of the world. The benefits are clear. The removal of barriers to trade has provided a powerful trade stimulus throughout the EU, notably in Britain, increasing prosperity and competitiveness.

But the EU is more than a free trade area! Above all, it is the basis on which to consolidate democracy and prosperity across the whole of Europe. Enlargement of the EU presents formidable challenges for new applicants taking on obligations of membership and for existing EU institutions, which need to be adapted to a larger Union.

What will the future EU of 24/25 members look like? Will there be a single European currency? Will the barriers go up around Europe, as they come down within? A return to "Fortress Europe"?

Many politicians on the continent of Europe have pressed for "more Europe," i.e. more centralisation and more corporatist economic solutions. The British government has always resisted such demands. We want an open and outward-looking Europe. We do not favour an inexorable drift of power towards supranational institutions, the erosion of national parliaments and the gradual development of a united states of Europe. Other key players agree. In 1994 Chancellor Kohl of Germany told the German Parliament: "We want unity and diversity. We do not want a centralised European state that subsumes regional, national and cultural traditions or dismisses historical experience."

Perhaps I should say a word about the much-debated European Monetary Union (EMU) and the plans for a single European currency—the "Euro"—in 1999. To qualify for EMU, member states must satisfy strict criteria on such issues as level of inflation and budgetary deficits. It is already clear that only a small number of EU members will meet the criteria (Britain could be one of them).

But, thanks to the protocol negotiated by the Prime Minister John Major at Maastricht in 1991, Britain is not bound to join, even if we meet the criteria. We shall have to make a hard-headed assessment of the implications for British interests including the impact on the economy and the political and constitutional implications. But one thing is certain: whether or not the U.K. joins EMU, our commitment to sound business-oriented economic policies and to the integrity of the single market will be undiminished.

Britain—the Gateway to Europe. Why?

Britain is a partner both to Europe and across the Atlantic to Canada. Geography makes that sensible—just as Canada is both an Atlantic and a Pacific country, with interests in both directions. But why is Britain the natural gateway for Canadian companies wanting to do business in Europe?

Britain's record speaks for itself! We have one-sixth of Europe's population but we attract one-third of all new investment to the EU and half of all investment from North America. Britain is the world's second-largest overseas investor—after the United States. Eleven of Europe's 25 quoted top companies by market capitalisation are British. Unemployment is 7.6 per cent—lower than our other major EU partners (Germany, France, Italy, Spain). More of our working-age population are in work than in Germany and Britain imposes a much lower burden of social charges on both employers and employees—half the level of some of our European partners.

Firms which choose to come to Britain—many of them Canadian—were free to locate their business anywhere. They chose Britain because of the strength of the British economy, because of our open market policies and because we are a major European partner. The British Canadian Chamber has played a key role in promoting business and investment links between Britain and Canada.

The benefits are mutual. The U.K. is Canada's third-largest trading partner. We are the second-largest investor in Canada. Canada is the sixth-largest investor in Britain and the second-largest foreign employer in the U.K. Over 600 British companies have subsidiaries in Canada and over 200 Canadian companies have subsidiaries in the U.K. Their investments are worth nearly $14 billion. You cannot travel far in the U.K. without coming across an office or plant owned by a major Canadian company: Alcan, Inco, Nortel, McCain's, Bombardier. Last month I attended the unveiling of the Bombardier Global Express Business Jet at Downsview, Toronto. Its fuselage is made by Bombardier's subsidiary in Northern Ireland, Shorts of Belfast. Other British suppliers include Rolls Royce, Lucas and Dowty. Britain is a natural springboard for increasing still further your trade with the rest of Europe.

Britain is in Europe to stay. That is why we are debating so hotly the type of Europe we want to see. Sometimes there are disagreements between partners. It would be unusual if there were not! But differences can usually be worked through, as we are doing on the question of beef exports and measures to eradicate BSE—"Mad Cow Disease." The British press of course are always ready to attack so-called "barmy Brussels legislation." You may have seen the reports of EU bans on short bananas, bent cucumbers, square strawberries, and the classification of snails as "land-based fish" so that snail farmers could benefit from special EU funds. I can assure you that these are all myths—Euro-myths.

The reality is:

- U.K. trade with our European partners has increased 20-fold since we joined.
- U.K. business and financial services trebled their surplus with EU countries, from £1 billion to £3 billion in a decade.
- We are a magnet for inward investment. Forty per cent of all Japanese and U.S. investment in the EU comes to Britain; as does nearly half of all Canadian investment in the EU.
- The single European market has provided enormous opportunities for British business to expand in all sectors.
- We now sell snails and wine to the French, pizza and shoes to the Italians and chocolate to the Belgians! Who knows? We may end up selling beaver tails in Ottawa!

Conclusion

I began with a quote from a Canadian Senate report. Let me end with two more quotes. The first is from the former British Foreign Secretary, Douglas Hurd. Some of you may have read his article on Britain and Europe in The Globe and Mail last October. He said:

"Canada will perhaps find it easier than the U.S. to understand the plans taking shape in the European Union. You have found it awkward to reconcile two cultures and two languages. Our variety is far greater. The European answer will not be the Canadian answer or the American answer. But you should bear with us patiently. We are trying to create something unique—not a United States of Europe, but a union of European nations and peoples which banishes wars and trade wars in Europe, and makes it possible to work together without artificiality or dominance of one by another."

The second—and last—quote is from the present British Foreign Secretary, Malcolm Rifkind:

"Britain is committed to Europe. Its future is our future. We will not turn our back on it. We cannot seek to limit it to a mere free trade area. It is too important to stability and peace in our continent. We have too many shared interests in foreign policy, justice and home affairs. The EU is central to our prosperity—but not only in the single market; also for our capacity to shape a global trading system in which commerce and prosperity can flourish."

The theme of my speech has been "Britain in Europe." The thought I want to leave with you is the need to strengthen ties between "Canada and Europe." But this is not only a task for politicians or diplomats. Working together with the BCCTC, we must ensure that our companies—on both sides of the Atlantic—take full advantage of the enormous potential of each other's markets as we move towards the 21st century.

The appreciation of the meeting was expressed by Robert Dechert, Partner, Gowling, Strathy & Henderson, a Director, The Empire Club of Canada and President, British Canadian Chamber of Trade and Commerce.

September 26, 1996

Lawrence Tapp

Dean, Richard Ivey School of Business, University of Western Ontario

BUSINESS EDUCATION IN CANADA: A BLUEPRINT FOR CHANGE

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Douglas Todgham, Vice-President, Canadian Institute for Advanced Research and Third Vice-President, The Empire Club of Canada; Colley Clarke, Vice-President, Finance, Administration and Human Resources, CANCOM and President, Ivey Alumni Association—Toronto Club; Robert D. Brown, Past Chairman, Price Waterhouse; The Rev. Canon Harold Roberts, Rector, St. Timothy's Church, Agincourt, Honorary Chaplain and a Past President, The Empire Club of Canada; Ronald Charles, Partner, The Caldwell Partners Amrop International and Chair of the Board, Ivey Alumni Association—Toronto Club; Robert A. Ferchat, Chairman and CEO BCE Mobile Communications Inc.; Richard M. Ivey, President, The Richard Ivey Foundation; Shelagh Donovan, Partner, Ernst & Young and a Director, Ivey Alumni Association—Toronto Club; David Elliott, Managing Director, Mergers and Acquisitions, Midland Walwyn; Harry Seymour, President and CEO, Pathfinder Learning Systems Corporation and a Past President, The Empire Club of Canada; Peter Godsoe, Chairman and CEO, The Bank of Nova Scotia and Chancellor, University of Western Ontario; and David Weiner, Partner, National Public Relations Limited and Vice-President, Programming, Ivey Alumni Association—Toronto Club.

Introduction by Julie Hannaford

The Empire Club is North America's only speaking club of record.

I have the pleasure of beginning this introduction by welcoming not only the members and directors of The Empire Club of Canada who are here with us today for this meeting, but also the directors and members of the Alumni Association of the Richard Ivey School of Business, for whom I believe, this is the launch of the fall season of meetings. I am sure that many of you who are alumni are also members of The Empire Club of Canada. If you are not, I am also sure that you will be in the future.

For any graduate school, and indeed for any educational institution, secondary, post-secondary, or post-graduate, its alumni organisation has assumed a critical status. Whereas before, the alumni organisation of an educational institution, often served primarily as a repository for mailing addresses for school colleagues, now, and increasingly, the alumni of our educational institutions are regarded as both the base and the touchstone for the success of our schools today. Why? Because the graduates of any school, and in particular, any professional school, are not just the best yardstick of the school's success, but they are the key resource in making that school a better place, as well as in maintaining the success.

By "resource," I mean not only a financial resource. Rather, it is the alumni who are often able to provide the best insight and creativity needed to evaluate, remedy, and change the institution from which they have graduated.

But the dedication of any group of alumni to provide that input, and to support the institution from which they graduated, depends entirely upon the quality of teaching and dedication to the consumers of the process, before they become alumni.

It gives me great pleasure, therefore, to say that our guest today, the Dean of the Richard Ivey School of Business, has inherited a formidable, and formidably loyal alumni and alumni organisation.

Both the Richard Ivey School of Business, and you, Dean Tapp are blessed with an interested and committed alumni, clearly because of the history of what your school has delivered in the past. Such a blessing, is in some ways also a burden. It is a burden in the sense that a school with a strong, committed, and dedicated alumni must continue to keep on doing not only that which generated the alumni, but also to do what it has done better. For business schools today the prospect of "doing the right thing" is a complicated challenge.

Business schools today confront challenges in addressing how we manage and create industry and commerce in a setting where national borders are becoming increasingly an historical curiosity, and natural resources are associated more with intellectual development and less with mechanical production.

That our guest today is equal to the challenges is unquestioned. I can make that statement because of the impressive background our guest brings to his position.

From 1985 to 1992, he was CEO of the Lawson Mardon Group, one of the world's premier packaging organisations with major operations in Europe and North America. During his tenure at Lawson Mardon, he became recognised in industry as a leader skilled at initiating change, improving performance and restructuring. During his tenure, he initiated an in-company MBA programme taught by leading business school faculty, in which more than 200 managers participated.

Mr. Tapp has also been heavily involved with both McMaster University and the University of Toronto. He has been on the Board of Governors at McMaster since 1987, and served on its Executive Committee and as Chairman of the Advancement Committee, responsible for fundraising and alumni relations. At the University of Toronto's Faculty of Management, Mr. Tapp was Chairman of the Dean's Advisory Council and Executive-in-Residence since 1992. He taught Strategic Management in U of T's MBA and EMBA programmes, chaired four committees, and was involved with their successful fundraising efforts for a new management building.

Distinguished guests, members of The Empire Club of Canada, and the Alumni Association of the Richard Ivey School of Business, please join me in welcoming our guest, the Dean of the Richard Ivey School of Business, Mr. Larry Tapp.

Lawrence Tapp

Before we get down to business I wanted to note quickly the new beginnings we are celebrating today. This is the first combined event hosted by The Empire Club and the Ivey Alumni Association—Toronto Chapter, and I hope it will be followed by many more. It is also the beginning of a new academic year, a time when universities and colleges across Canada are thinking deeply about their future in a swiftly changing world.

And, of course, it is the first year in which my own school takes on a new identity. Building on a proud 75-year history of educating Canada's business leaders, Western Business School is now the Richard Ivey School of Business. I am honoured to have Richard Ivey here with us today. He and his family have been actively involved with the school for half a century. Their recent naming gift has helped launch us towards our goal of entering the top tier of international business schools.

Today I want to talk to you about some of the forces that are driving change among Canada's business schools, and the steps I think are necessary for us to turn out the next generation of business leaders.

Those of you who already run businesses will find this familiar territory. You already know that in today's global economy, there is no safe haven—no ivory tower. You either move forward or fall back. The same holds true for business schools.

In fact, we have an additional obligation. Business schools must not only respond to change or document it for academic posterity, we need to lead it. If we don't, we will grow increasingly irrelevant to our students and to their employers. Leadership is at a premium today. If we can't deliver it, our customers will quickly go elsewhere.

Before I tell you what steps are required for us to provide that leadership, let me build a case for business education as a critical factor in our country's economic competitiveness.

U.S. Federal Reserve Board Chairman Alan Greenspan said recently that in today's industrial economies, "Abstract ideas and concepts are the dominant element in the creation of economic value." He went on to say that this "conceptualisation of economic growth" has led to a world in which human skills are becoming obsolescent at an unprecedented rate.

There are two immediate impacts of this fundamental shift. The first is that intellectual capital is now the prized resource in our post-industrial economies. The second is that continuous learning is now an imperative for both the organisation and the individual. Business schools are—and must continue to be—the prime source of intellectual capital in our economy. But we must also respond to business' need for continuous or "just-in-time" learning to respond to the pace of change in their environment. And we have to deliver it in the optimal location for the student and the company. If we don't, we will soon be out of business. Companies will find what they need elsewhere—through in-house programmes or through strategic alliances with non-university educators.

Canadian business—and Canadian business education—are no longer cozy environments. Our centres of excellence and competitive advantages are constantly being challenged. NAFTA alone has dramatically changed the supply and demand equation for business education. We are now competing against the likes of Harvard, Stanford and INSEAD. We need to work harder than ever to attract and keep the best talent in terms of both faculty and students.

In short, to grow our intellectual capital and to ensure its steady flow to the business community, we can no longer afford to remain aloof from the economic and business environment. We must be at the leading edge of change if we are to prepare others to manage change.

I don't want to give the impression that our schools have failed to meet their obligations in the past. Far from it. Working with limited and now diminishing resources, we have established a tradition of excellence of which we can be proud. But now it is time to change so that that tradition can continue. Here are seven steps we need to take.

Export intellectual capital

First, we need to create and export intellectual capital. Let me explain by using trade as an analogy.

Canada's strength as a trading nation is our ability to source raw material, whether domestic or imported, and transform it into value-added products for domestic or international consumption.

In fields such as telecommunications, transportation and natural resources, Canadian firms export not only goods but also know-how. Our manufacturers are increasingly driven to seek global product mandates in order to survive and prosper. In the same vein, our business schools must develop their own equivalent of global product mandates. We must be able to attract the best intellectual resources on a global basis and transform them into ideas—or intellectual capital—that can be sold anywhere in the world.

We should stop worrying about the "brain drain" and focus on making our business schools more attractive to foreign students. Canada must become a preferred destination for students seeking an international business education. To do that, we need to become second-to-none in developing the expertise to manage in a global environment, whether the business is a local shop or a multinational corporation.

My own school has about one in five students from abroad or from first-generation Canadian families. I'd like to see us having an international student body that is 50 per cent or even higher.

Ivey Business School is already renowned for its focus on applied management skills. But that isn't good enough anymore. We have now set our sights on being one of the top schools in the area of global management skills. And to do that, we know that we'll have to play in the big leagues—where the motto is, "Play to win or stay at home."

Become self-reliant

This brings me to step two. If Canada's business schools are going to be net exporters of intellectual capital, we need more financial capital. Our current level of funding is simply not up to the task.

To do so, we need to become more self-reliant and more self-funded through innovative partnerships with businesses and with other universities through higher tuition fees and through innovative new teaching programmes.

First and most obvious, provincial governments have neither the means nor the appetite to increase our funding at this time. I would be the first to agree with them. It is unfair to ask Canadian taxpayers to heavily subsidise professional schools, given the high salaries most graduates will earn and given that many will pursue business opportunities outside Canada. Second, governments have never been able to afford the kind of subsidy that is needed to make our schools top-tier, which is precisely why we have been slipping behind our international competitors for several years. Professors at Ivey Business School earn on average 40 per cent of what their colleagues would earn at top-tier U.S. schools. It is a tribute to our school that they remain deeply committed to it but this gap is clearly unsustainable.

Over-reliance on government funding has sapped our energy and initiative. That's the bad news. The good news is that greater reliance on other sources—tuition, alumni and corporate support and new revenue centres—will foster competitive excellence by encouraging direct investment in intellectual capital. This will ultimately raise educational quality across the board. Removing tuition caps is a key step in this direction and should be implemented as soon as possible to allow us to compete more effectively with the best international schools.

The drive towards self-sufficiency will have a number of impacts on the "market" for business education in Canada—some positive and some negative:

- It will accelerate the "shake-out" that is already underway. Schools that service too few students at too high a cost, and that don't have the critical resources to grow, will be merged or closed.

- Some schools will chase dollars, especially student dollars, by offering popular and trendy programmes or by lowering their entrance requirements. These schools will inevitably be recognised for what they are—degree mills.
- Other schools will decide to be only "retailers" or "recyclers" of intellectual capital, never "manufacturers" of it. Their students will be that much farther removed from the realities of the business world.
- And, of course, some schools will emerge as clear winners, attracting the brightest and the best faculty and students here and abroad, and leveraging their strengths to become stronger still.

In short, students, recruiters and funders will have to "kick the tires" of a prospective school very carefully. Caveat Emptor—let the buyer beware.

As someone who has spent much more of his life in the business world than the academic one, I'm not worried by this new market reality. It will feel just like coming home.

Focus on teamwork and integrative skills

The third step towards change is a new focus on teamwork and integrative skills.

Since teamwork is quickly replacing hierarchy in the modern corporation, business schools must place far greater emphasis on developing team building, team leadership and cross-functional strategic thinking. In practice, this means greater emphasis on communications and interpersonal skills, flexible and transferable problem-solving skills and the ability to integrate information across several functional areas.

It also means that teamwork has to be practised in business schools, not merely taught. The days of the self-absorbed, self-centred, solitary academic are over. I'm proud to say the Ivey Business School has practised teamwork and an integrated approach to the disciplines of management long before they were fashionable—in fact from its beginnings. But don't take my word for it. Ask any student on campus, any alumnus, or any faculty member. They will all tell you the same thing.

While fiercely competitive towards the outside world, Ivey Business School has always been a place where students and teaching excellence come first, where faculty care more about the school than their careers, and where an integrated approach to learning infuses every moment of every day. We don't just teach accounting, finance or organisational behaviour. We teach management. Next to the business leaders whom we turn out, our approach to learning is our most valuable asset.

Focus on niche areas of strength

The fourth step is to focus on niche areas of strength.

The days when a company could be all things to all people are numbered. Global competition and consumer choice compel companies to focus on core strengths. The same holds true for business schools. Not every school in Canada can afford to be the best in every area of knowledge. This simply costs too much and doesn't make sense in a country of our size.

There is room for collaborative efforts—among Canadian schools and with schools abroad—to allow students to tap into the richest veins of knowledge, wherever they happen to be. Ivey Business School, for example, has developed a three-way joint venture programme called "Competing in the Americas" with the Darden School in Virginia and IPADE, one of Mexico's pre-eminent business schools. Alone, each school would have been hard-pressed to attract the faculty and students needed to establish a Pan-American teaching capability. Together, we have created a programme that is unique and truly world-class.

When it comes to knowledge, of course, the normal rules of competition don't apply. The more you share, the more you gain.

Bring the school to the student

Fifth, business schools today must increasingly bring the school to the student.

For today's manager, the most precious commodity is time, and the most difficult challenge is to balance the roles of executive, entrepreneur, student, parent, and provider. We need to come up with programme delivery methods that help them meet that challenge—or again, others will step into the breach. Further, the pressures and conflicting responsibilities managers face today must provide the intellectual framework for our course content.

Ivey's Video Executive MBA Programme is addressing that need, with state-of-the-art video-conference classrooms in London, Mississauga, Markham, Vancouver, Calgary, Edmonton, and Montreal. We have also partnered with CP Rail in Montreal and Calgary with respect to video conferencing, ushering in a new era of accessibility and value-added for corporate executive education customers.

Focus on key trends and issues.

The poet Horace said: "Seek for truth in the groves of academe." The challenge facing business schools is to make sure that this dictum is as applicable today as in his time.

Industrialised nations are facing a slate of issues that will challenge their business communities and place a premium on managerial excellence. Globalisation, deregulation, privatisation, an aging population, the so-called "jobless recovery," the environment and work-related stress are issues high on management's agenda. And so must they be on ours. Business schools should be the central forum for their exploration and for the breakthrough thinking needed to tackle them.

A narrow focus on technical skills is a disservice to students who will face such issues upon graduation, and to the business community who will go elsewhere to develop strategic responses. Providing a forum for these issues will also help dispel the notion, perhaps left over from the 1980s, that business schools and their graduates put profit over principle—that the sole measure of success is "doing the deal." Having been a deal-maker myself a little more than 18 months ago, I have always felt strongly that the deal is important but that how you arrive at it and who benefits from it is equally important.

Avoid-flavour of-the-month.

Finally, business schools have to protect the standard of education they deliver, no matter what pressure they come under. Earlier I mentioned how declining revenues might cause some schools to respond in ways that are short-sighted and ultimately harmful. But the heat isn't only financial.

Uncertainty in the business environment has prompted a frantic search for solutions—on campus and off. It has created a supercharged but superficial learning atmosphere in which we thirst for information on everything and anything new about business. It has spawned a multi-million dollar "pop biz" industry and a gaggle of gurus touting two-cent solutions with evangelical zeal. They've given us the gospel of total quality, the search for excellence, and the paradigm shift.

Don't get me wrong. Each of these concepts has its own merits. Each can have a positive effect on a company if they are applied with integrity and with commitment. But they are no substitute for the conceptual, decision-making and implementation skills that constitute sound management practice.

Ivey Business School's focus-on-the-case method is an example of a core strength that is neither flavour-of-the-month nor easily replicated. And it is one we will build on internationally as we write new business cases for Asia and for the Americas.

I am also disturbed by the growing trend towards accrediting courses towards an MBA that are taught by non-university institutions. An MBA has to maintain its authenticity as a university programme in which students master the principles of business. If we allow so-called MBAs to be awarded by ABC Training Academy, or whatever, we debase the degree and everything it stands for.

Conclusion

It was once said of universities that they were safe havens—places for quiet, undisturbed, scholarly reflection. Not any more!

Even as the demand for higher education grows, the role of the university and its relation to society is undergoing radical change. This is doubly so for business schools. If Alan Greenspan is right about the "conceptualisation of economic growth"—and I certainly think he is—then we need to make sure our graduates not only have the knowledge and skills for immediate employment, but also that we have planted the seed of continuous learning in them.

The fact that intellectual capital is now a strategic resource is also our great opportunity, for we are its "primary producers." But, like any business, we need continuous investment in R&D if we are to fulfill our mandate of preparing the next generation of global managers.

While some might question whether we have the resources to do so, our Canadian roots give us some critical advantages:

- As a trading nation, we are attuned to global rhythms and to the need to adapt to global markets. We have no choice but to be endlessly inquisitive about the world around us and to seek to know it better.

- Our multicultural population and heritage makes us sensitive to foreign markets and cultures and makes us an attractive destination for both foreign investors and students.
- We have a permanent “Hertz vs. Avis” relationship with the U.S.—we always have to try harder! This forces Canadian businesses—and business schools—to turn liabilities like smaller size into assets. (It is a bit like tennis. By playing against more powerful opponents, you better your own game. Then, one day, you beat them.)

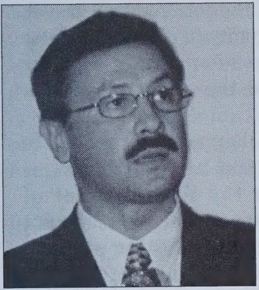
The imperatives of the global market are what led the Ivey Business School to change its name and to build a new vision for the future. At its core, we see global management skills, managing technology and entrepreneurship as our critical growth areas. We see the strengths that have made us renowned in the past—our focus on developing people and our emphasis on applied learning—as the foundation for a broader and more international scope. But most of all, our vision involves a willingness to learn as much as we teach. And we have a great deal to learn from business.

Most Canadian businesses don’t have the luxury of being “armchair generals.” They’ve had to fight hard to win the competitive advantages they enjoy. They have been buffeted by gale force winds—free trade, recession, globalisation, technological revolution—without the insulation of a huge domestic market. They have had to be global both operationally and intellectually in order to survive. They naturally expect their business schools to help them compete to win. They expect us to have the same fighting spirit as them and the same burning desire to be among the best.

We can do no less.

Thank you.

The appreciation of the meeting was expressed by Harry Seymour, President and CEO, Pathfinder Learning Systems Corporation and a Past President, The Empire Club of Canada.



September 27, 1996

Serhiy Holovaty

Minister of Justice of Ukraine

AT THE THRESHOLD: THE IMPLICATIONS OF UKRAINE'S NEW CONSTITUTION

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Willis Blair, Secretary, The Empire Club of Canada and former Mayor of the City of East York; Andrij Kisil, Grade 10 Student, Michael Power/St. Joseph's High School; Dr. Rose Dyson, Media Consultant and Chair of Canadians Concerned with Violence in Entertainment; Serhiy Borovyk, Consul General of Ukraine; The Hon. Mr. Justice Eugene Ewaschuk, Ontario Court of Justice (General Division); Most Rev. Isidore Borecky, Bishop of the Ukrainian Catholic Eparchy of Toronto; William Whittaker, Partner, Lette, Whittaker and an Honorary Director, The Empire Club of Canada; The Hon. Mr. Justice Eugene Fedak, Senior Regional Justice of the Central South Region; Most Rev. Dr. Roman Danylak, Bishop of the Ukrainian Catholic Apostolic Administrator; and Peter Mykulak, President of the Council of Ukrainian Credit Unions of Canada.

Introduction by Julie Hannaford

Imagine for a moment that you are a recruitment professional. Imagine that you have been asked to locate a suitable candidate for a very special job. You would be told that the job involved travel, challenge, change, diversity, and the opportunity to meet and confer with foreign dignitaries and heads of state. After getting over the temptation to simply say that you would take the job, you might ask for more particulars.

You would then be told that travel, challenge, and change are only part of the bigger picture. You would be told that your candidate must be equal to taking on the development of governance and management, not of a multi-national company, not of an existing organisation, but instead, of a nation state which in 1990 declared its sovereignty. You would be told further that this nation lies in the south-west of the former USSR, that it is bounded by Poland, Slovakia, Hungary and Romania, that it occupies a total area of 603,700 square kilometres, and that it has a population of about 53 million. You would be told that the nation for whom you are seeking such a candidate is one of the richest agricultural zones in Europe. You would be told that this nation has developed mining resources and has a diverse manufacturing economy. You would also be told that this nation, for whom you are seeking a suitable candidate to develop and manage its governance has a rich and profoundly intricate cultural heritage, of which Canada is one of its great beneficiaries. You might guess, if you are not told, that this nation is Ukraine.

Back to your search for the ideal candidate. Who could you possibly find to take on the development of a constitution, the development of a judicial structure, the maintenance of an emergent and dynamic economic and legal system, all against a backdrop of extraordinary political and economic change and a background of continuing struggles to retain independence, national identity and cultural integrity?

In searching for the ideal candidate you would identify the following qualities as fundamentally necessary:

1. a rigorous education in international law, economics and politics;
2. a demonstrated ability to lead;
3. a background in politics; and
4. evidence that the candidate has thought deeply about legal, cultural, political, international, and economic issues.

Lesser mortals might well decline both the opportunity to find the candidate, or indeed to be the candidate.

Imagine, however, that you set out to find the perfect candidate. Imagine further, that I came to you with a prospective candidate.

“Well,” you would say “what about his education?” I would tell you that this individual studied in Kiev at the Taras Shevchenko

National University from 1972 through to 1980, earning a Ph.D. in international law. I would tell you further that this individual went on to be a lecturer in international law at his university, as well as a junior and senior research fellow at the Institute for Social and Economic Problems for Foreign Countries at the Ukraine Academy of Sciences, and that my candidate was also elected a member of the Academy of Legal Science for the Ukraine.

You might then ask about the candidate's experience in the public sector. You would want to know fundamentally whether the candidate had displayed the ability to put his academic training to the test in the public domain.

I would tell you that this candidate, from 1989 forward, has held innumerable public positions, beginning with his election to the Parliament of the Ukraine in 1990, and his re-election in 1994, and that the candidate was a member of the Committee on Foreign Affairs.

I would then tell you that the candidate was also a member of the Board of Directors of the Ukraine Canadian Society, a member of the working group on strategies and options for the future of Europe at the University of Mainz, in Germany, a member of the working group of the Constitutions Commission of the Parliament of Ukraine, a member of the core group of the CIS Non-Proliferation Project at the Monterey Institute of International Studies in the U.S.A., the President of the Ukrainian Legal Foundation, the President of the World Congress of Ukrainian Lawyers, a member of the National Delegation to the Parliamentary Assembly of the Council of Europe, and an associate member of the European Commission for Democracy through Law for the Council of Europe; and, I would tell you, that is only a selection of the public positions held by this candidate.

Impressed, but no less determined to do a full background search, you would ask about the candidate's involvement in developing and thinking through legislation.

I would tell you that the candidate had assisted in the drafting of the Declaration of State Sovereignty of the Ukraine, had assisted in the drafting of the Act of Independence of the Ukraine, had drafted the law in legal succession for the Ukraine, had drafted the law to delegate legislative powers to the Executive Branch, had drafted the law in international treaties, and had been a member of the Constitutional Commission drafting the new Constitution for the Ukraine.

I would also tell you that the candidate had participated in no less than 28 symposia and conferences, from 1990 forward, including conferences in Canada, the United States, Germany, England, Poland, Sweden and Taiwan. I would tell you that the candidate had participated in symposia on democracy, non-proliferation, and Glasnost. I would also say that the candidate had published extensively, having written on constitutional issues, international relations, and has assumed editorial responsibilities for two publications.

I would then ask you if you could think of any candidate that could possibly be better qualified to take on the task.

I would also tell you that having just had the opportunity to speak to this candidate over lunch, that in addition to having a depth of education, training, political experience, and academic insight, he is articulate, witty, thoughtful, and yes, entirely human.

Would you consider the candidate up to the task of developing and managing legal and constitutional governance? Undoubtedly.

The candidate of course is our guest today, and I embarked upon such an excursion, when I was given the opportunity of reading the curriculum vitae of our guest, Serhiy Holovaty, the Minister of Justice of Ukraine. The demands upon our leaders today are enormous, not only in terms of time, but in terms of the wisdom and learning which they must bring to each challenge that confronts them. When we assess our leaders, we often do so without being mindful of that which they bring to the table in meeting the challenges that are placed before them. Our guest, as Minister of Justice, brought to the drafting of the Constitution, which will have dynamic, economic and legal ramifications for the Ukraine, a depth of knowledge and insight which is truly remarkable.

In agreeing to address The Empire Club of Canada today, our guest brings with him not only insight into the ramifications of Ukraine's new Constitution, but insight generally as to constitutional and legal challenges and developments everywhere.

What our guest has to offer today is not just a report on the status of nationhood in the Ukraine, but a commentary on constitutional and legal issues and their resolution, that touch on all of our lives everywhere.

Please join me in welcoming our guest today, Ukraine's Minister of Justice, The Honourable Serhiy Holovaty.

Serhiy Holovaty

Madame Chairperson, honoured guests, ladies and gentlemen. It is a great honour for me to address you on what, for me, is a very special day. It is exactly one year since I was appointed Minister of Justice of Ukraine, and I am very pleased to share this event with my friends in Canada. I have a great deal of fondness for Canada. From my first visit in 1990 as a newly-elected deputy to Ukraine's Parliament, I have always been made welcome in this county. Indeed, most Ukrainians look upon Canada as Ukraine's closest ally in the West. Canada was the first western nation to recognise the independence of Ukraine, and has provided stalwart support to the strengthening of that independence. To many Ukrainians, Canada remains a model for the realisation of their own aspirations.

It is because of the close association of our two nations that I attach particular importance to my visit to Canada. My purpose is to convey the message that Ukraine stands at the threshold of an exciting new era in the development of its young democracy. Today, Ukraine is a nation looking to the future with new hope, emerging confidence, and a new sense of purpose. This, however, is not the time to become complacent. It is precisely at this juncture that Ukraine requires the continued support of its friends.

Difficulties

The road has not been an easy or a clear one. In 1991, Ukraine emerged from 350 years of colonial subjugation. At the time, it possessed few attributes of statehood. It did not inherit any of the apparatus of modern government. Its very identity as a nation had been ruthlessly, and often brutally, repressed by its Tsarist, then Soviet, overlords. Western perception of Ukraine in those early years of independence was overwhelmingly negative. Ukraine was perceived as a renegade nuclear power, torn by ethnic strife, regional separatism, and economic collapse. The chauvinistic and distorted article about Ukraine in a recent issue of Forbes magazine, illustrates that some quarters are still desperate to undermine the very credibility of Ukraine as a viable independent and democratic state.

Positive Developments—Political

Ukraine has withstood all of the misgivings about its emerging democracy. Indeed, although it may be claimed that Ukraine should have done more sooner, developments in Ukraine today must be viewed positively. Real, tangible, and dynamic transformations are occurring throughout the country. On the political front, the success of national integration has proceeded beyond anyone's anticipation. Ukraine has held two free and democratic parliamentary and presidential elections unmarred by violent disruptions and unconstitutional pressures. Ukraine has taken its rightful place in the family of European nations as a full member of the Council of Europe. It has secured peace on its borders and pursues normal relations with all of its neighbours. Ukraine has successfully demonstrated that it can offer its citizens ethnic harmony, and has repelled the efforts to sow the seeds of civil discord. In an unprecedented step, Ukraine became the first country in the world to renounce and relinquish its nuclear capability. Since then, Ukraine has pursued a civilised and widely acclaimed nuclear disarmament policy. It is a full participant in world forums, and plays an important role in the United Nations peacekeeping mission in Bosnia. Ukraine now participates in world history as an independent and strategic player. It is being judged favourably according to internationally accepted norms and standards of behaviour. As President Kuchma remarked during recent celebrations commemorating the 5th anniversary of Ukraine's independence: "In five years, in conditions far from favourable, all of the attributes of statehood have been attained."

Positive Developments—Economic

Until recently, economic reform proceeded at a frustratingly slow pace. Following independence, Ukraine was unable to convert its industries from military to civilian production, to adjust to higher energy prices, to create a market system for international trade, and to create a market-based financial system. As a result, Ukraine experienced sharp declines in production, financial chaos, and widespread black market activity. It became clear that unless the transition to democracy was matched by a transition to prosperity, the threat of social instability would be always present in society.

The government of Ukraine has taken serious and significant steps in the past year to begin to reverse these tendencies. As a result, the Ukraine economy is embarking on an upward trend: we have achieved relative price stability and have curbed hyper-inflation; we are implementing a stable and rational tax regime; Ukraine's new currency, the hryvnia (part of which was printed in Canada), was successfully introduced earlier this month; a new foreign investment law has been adopted to stimulate investment in the Ukrainian economy; and vast structural reforms are taking place in key sectors such as power production. While able to attract only $750 million of direct foreign investment between 1991 and 1995, Ukraine saw a surge in this type of investment in 1996. In the first six months of this year, Ukraine received $250 million worth of direct investment. Transactions at least equivalent to this amount are under negotiation. Similarly, although slow to start, the privatisation of small- and medium-size enterprises has been virtually completed. Indeed, more state-owned enterprises have been privatised in the first six months of 1996 than in the previous four years.

While much still needs to be done, particularly in the area of agriculture, experts forecast that Ukraine will achieve one-per-cent growth of GNF next year for the first time since independence. Under current policies, some western economists believe that Ukraine could, within the next few years, conceivably achieve seven-per-cent or eight-per-cent growth per year, particularly if Ukraine continues to stimulate foreign investment, and achieves gains in trade.

Positive Developments—Societal

On a societal level, Ukrainians today experience personal freedom to an extent unprecedented in their often tortured history. Freedom of expression flourishes as the psychology of fear which characterised Soviet rule has evaporated. Ukraine is witnessing a renaissance in literature, religion and music. Indeed, since independence, the dynamic of the relationship between the individual and the state is being questioned, reformulated and restricted. During the Independence Day celebrations, President Kuchma remarked: "The priorities of future policies must follow in this order; individual family, society and state."

Constitution—General Implications

Without a doubt, Ukraine's crowning achievement in this process of transition and transformation, has been the adoption of a new constitution. It is a defining moment in Ukraine's struggle for statehood. For the first time in its history, Ukraine has a constitution which expressly entrenches the principle of the supremacy of the Rule of Law as the foundation of the Ukrainian state. The whole panoply of emerging civil, social, and economic relationships in Ukrainian society may now develop on a stable juridical basis. For example, by enshrining the right to private ownership of property in the Constitution, the onus rests with the state to pass laws which clearly define and protect such rights. Further, the Constitution guarantees the independence of judges to determine the rights of the parties before them, free of external influences. This will facilitate confidence in the sanctity of the validity and enforceability of contractual relationships. As a result, the market should be stimulated to operate more effectively and efficiently.

Judicial independence will give effect to the guarantees of basic human rights and freedoms set out in the

Constitution. Thus, the legal vacuum in which the exercise of individual freedom has existed since the collapse of the old power structure has been filled. The Constitution also promotes social and ethnic harmony by guaranteeing the use and promotion of minority languages in Ukraine, including Russian. Further, it diffuses regional tensions by setting fair and clear parameters on Crimean autonomy and local self government. Furthermore, the clear separation of authority between the executive and the legislative branches of government resolves a seemingly intractable issue which proved so debilitating to Ukraine's reform process.

Constitution—Implications for Legal Reform

In this context, the Constitution legitimises and promotes the process of legal reform in Ukraine. The absence of an effective legal infrastructure to support the transformations taking place in Ukraine has been the essential missing ingredient to securing their long-term sustainability. Indeed, I have seen the impetus for legal reform significantly accelerate since the adoption of the Constitution.

My objective as Minister of Justice is to pursue programmes in the areas of judicial reform, the restructuring of the functions of the Ministry, reform of legal professions and the establishment of an independent bar, the improvement of the quality of the drafting of laws, and legal education. We are supporting key economic initiatives, such as bankruptcy and land registration reform. My Ministry is also working to bring Ukraine's laws into conformity with the European Convention on Human Rights. We have just submitted to the President the completed draft of a new Civil Code for Ukraine, which should be put before Parliament in the current session. The Ministry's responsibilities have been compounded by a flood of new directives to bring Ukraine's legislation into conformity with the Constitution. We are expected to complete this task by December 1 of this year!

Canadian Assistance

Needless to say, the Ministry, historically an irrelevant branch of government, is overwhelmed by this turn of events. The adoption of the Constitution, while a joyous event, has stretched to the maximum the abilities of the Ministry of Justice to cope with its new and existing obligations. We have been fortunate, however, to have partners to assist us with the legal reform process. Canada, I am proud to say, has been one of Ukraine's most significant, generous and enduring partners in the field of legal reform. I am grateful to the federal Department of Justice for its guidance and efforts in helping our Ministry of Justice understand how to restructure our operations. The Office of the Commissioner for Federal Judicial Affairs has assisted us with the development and implementation of a comprehensive and ambitious programme to reform the Ukrainian judicial system. We are about to implement a project with the Order of Notaries of Quebec to assist us with transforming the Ukrainian notarial system. The Chief Legislative Counsel of the province of Saskatchewan is currently in Kiev, assisting the Ministry of Justice with the establishment of a department of draft legislation. Canada has also assisted us with legal policy advice and advisors. Your Ambassador to Ukraine, Christopher Westdal, is a constant source of support for our efforts. He consistently underscores Canada's concern to help reform Ukraine's system of justice.

Acceptance of the Process

Canada's continued encouragement is vital to the long-term sustainability of the legal transformations taking place. Support from countries such as Canada will help legitimise the process of legal reform in the eyes of Ukrainian citizens. The credibility democratic nations bring to this aspect of Ukraine's constitutional development should not be underestimated. The magnitude of the challenge to change the mind-set of a nation is daunting. Reform of the legal system has been hampered by a collective memory of the use of the law by state authorities as an instrument of oppression and not as the handmaiden of freedom and individual liberty. The legacy of Soviet rule left deep scars on the psyche of the Ukrainian body politic. The attitude toward law was profoundly affected. Professor Jeffrey Sachs of Harvard University has pointed out that the Soviet system was not a legal order "but a kind of organised Mafia of ruthless extent." The state used the law as a political instrument. The result of this denigration of justice was a lost respect for the law as the guardian of individual rights and freedoms. As an ethical malaise afflicted society, apathy, cynicism and scepticism, rather than hope and faith, came to mark the average Ukrainian's attitude toward the Rule of Law.

The Constitution provides Ukrainians with the opportunity to reconsider their relationship with justice. Ultimately, for a democracy to succeed, it is essential for the state to operate on the basis of the Rule of Law. In this context, the new Ukrainian Constitution has made a clean break with the past and has established the terms by which a new social contract between individual and state must be concluded. It is a contract predicated upon the Rule of Law. It is a contract where both the individual and the state undertake to one another to abide by the laws of the land. It is a contract which will underpin the success of all of the transformation under way. As President Kuchma has stressed, "The Constitution is a civic agreement, creating new conditions for stability in the country … if we don't respect the Constitution, Ukraine and its people will never be respected."

Social Contract

The social contract element is deeply significant. The Constitution marks a defining moment in Ukraine's struggle for statehood. It consolidates the historical aspirations of the Ukrainian people manifested as far back as the 1710 Constitution. There, the desire expressed by the Ukrainian nation to cast off the yoke of tyranny predates those of the French Revolution and the American Declaration of Independence. The Constitution thus provides a vital reaffirmation of Ukrainian national identity. It acts as a catalyst for the promotion of national consciousness and national integration. It establishes a framework for all Ukrainian citizens: it is a reflection of whom we are as Ukrainians, and how we are to be represented. The adoption of the new Constitution therefore manifests the critical link between the affirmations of statehood and national identity, and the creation of the juridical basis on which the Ukrainian state will be governed. It thereby legitimises the Rule of Law as the basis for the development of the Ukrainian state. This foundation is the *sine qua non* to the realisation of prosperity and social vitality in Ukraine.

Peaceful and Democratic Process

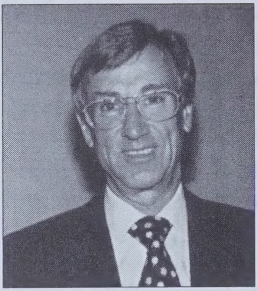
The Constitution is a compromise document. It is not perfect. Indeed these very facts attest to one of its cardinal attributes. The Constitution's adoption was the culmination of a lengthy and arduous, but fundamentally peaceful and democratic political process. Although Ukrainian executive and legislative structures have been much maligned, they ultimately did not fail the Ukrainian people. To have done so would have plunged Ukraine into a constitutional, political and social crisis. Instead, they produced a constitution of which every Ukrainian can be justifiably proud. It establishes a framework for peaceful national integration, responsible government, and harmonious social and ethnic relations. Few other states of the former Soviet Union can make the same claim.

Ladies and gentlemen, democracy is alive and well in Ukraine. Ukraine is truly at the threshold of a new era as it prepares to face the 21st century. It has been assisted along this road by many friends. These relationships have helped Ukraine become more self-reliant and self-confident. The transformation taking place today in Ukrainian society will continue to evolve in a democratic way. Never again will Ukrainians tolerate the imposition of a system which destroys social, human, and economic values. Instead, Ukraine shall build its state and secure its future on the basis of freedom; freedom to pursue one's livelihood; freedom to express one's point of view; freedom guaranteed by the fundamental law of Ukraine. The Constitution has legitimised the Ukrainian people's sense of self. The government's obligation is to enact the legislative basis for the full exercise of these freedoms, and thereby allow Ukraine's vast human talent to flourish.

I leave you with the message of President Kuchma, who declares that, "We have to create, and we will create, a state which will not be the tool of one political party, and thus will not tell the society how to live, but will serve it faithfully and reliably."

I thank you for your attention.

The appreciation of the meeting was expressed by William Whittaker, Partner, Lette, Whittaker and an Honorary Director, The Empire Club of Canada.



October 2, 1996

Sir Richard Sykes

Deputy Chairman and CEO, Glaxo Wellcome plc

GLOBAL ECONOMIC PRESSURES AND THE QUEST FOR NEW MEDICINES

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Bill Laidlaw, Director, Government Relations, Glaxo Wellcome and a Director, The Empire Club of Canada; Prof. Heather Munroe-Blum, Vice-President Research, University of Toronto; David Edmison, Director, Martin, Lucas & Seagram and Immediate Past President, The Empire Club of Canada; Dr. Francesco Bellini, President and CEO, BioChem Pharma; Paul Lucas, President, Glaxo Wellcome (Canada); Bob Dechert, Partner, Gowling, Strathy & Henderson, Director, The Empire Club of Canada and President, the British Canadian Chamber of Trade and Commerce; The Rev. Cameron Brett, Minister, St. Andrew's Presbyterian Church; Mike Strofolino, President and CEO, The Hospital for Sick Children; and Al Flood, Chairman and CEO, Canadian Imperial Bank of Commerce.

Introduction by Julie Hannaford

Exactly one week ago, on September 26, 1996, the Dean of the Richard Ivey School of Business, Lawrence Tapp, addressed The Empire Club. He spoke about the changes in the business education offered to students today, but also about the business of education that has come to also govern the growth and development of our professional schools. To the relief of the audience who heard Mr. Tapp's address, the term "paradigm shift" was never mentioned. In the business and management world, the concept of "paradigm shifting" has become associated with meaningless jargon, and more often than not, really translates as issue avoidance: when someone urges us to shift paradigms, usually, what they are now telling us to do, is to stop talking about the issue and move on to something else.

If shifting paradigms, translated into English as "changing the way we think" has meaning, it probably has the greatest meaning in the pharmaceutical industry, in particular, and in medical science in general.

Sir Richard Sykes addresses The Empire Club today not only as the Deputy Chairman and Chief Executive of Glaxo plc, but as the representative of an industry poised on the horizon of dramatic change, and critical challenge.

How we think of medicine is perhaps most dramatically illustrated by a quick tour of the highlights of the products introduced by Glaxo over the last 20 years. In 1978, Glaxo introduced Zinacef, an injectable antibiotic used for the prevention of infection during surgery. In 1991, Lacipil, a calcium blocker compound for the treatment of hypertension, was introduced. In 1991, Imigran and Imitrex were introduced for the treatment of migraine and cluster headache. In 1981, Zantac, perhaps the best known treatment for ulcers, was introduced. In 1987, Retrovir (also known as AZT) a treatment for AIDS, was introduced, and then, in 1995 Epivir, a further inhibitor for the treatment of AIDS, was introduced.

The above are representative of only a very small percentage of the pharmaceutical treatments introduced for the treatment and management of those illnesses which as recently as 20 years ago were regarded as untreatable, and/or unmanageable.

What does all this mean for the industry and for the issues being addressed by our guest today. It means that pharmaceutical science has changed the way we think of medicine today. Twenty years ago, patients would ask their physicians first whether a disease could be cured, and second, if the answer was in the negative, how it could be managed.

Today, largely because of the breakthroughs and dramatic developments taking place in science, patients (who are now significantly, known as consumers rather than patients) ask their physicians, not whether a cure exists, but how long it will be before the problem can be solved. As our population ages, the demand for solutions will become increasingly intense. That we as health-care consumers no longer accept chronicity or incurability, but instead expect medical science to produce solutions to previously insoluble problems, represents a true change in the way of thinking.

But at the same time, at least in Canada, this change in the way we think about science has developed concurrently with a change in the way in which we view health care. Health care, once a commodity that was purchased and delivered, is now part of the new set of rights available universally to each citizen. And, as health care becomes a right, rather than a commodity, and as that right is part of the fundamental set of rights available to each citizen, a countervailing pressure has developed to deliver both goods and services within the health-care field at a competitive cost.

The demand that medical science move forward at an increasingly high rate of speed, and the imperative that health-care services and goods be delivered universally and economically efficiently, are the two demands that configure the debate within the industry.

Our guest today addresses these issues from a background of academic achievement, research distinction, and extensive participation in the industry.

Born in 1942, he graduated at the University of London with a first class honours degree in microbiology. He obtained his doctorate in microbial biochemistry at Bristol University and his Doctor of Science degree from the University of London. He is a visiting Professor at both King's College, London and Bristol University; a Fleming Fellow at Lincoln College, Oxford; and an Honorary Fellow of the Royal College of Physicians. He has received an Honorary Doctorate in Pharmacy from the University of Madrid; Honorary Doctor of Science degrees from Brunei University and the Universities of Bristol, Hertfordshire, Hull and Newcastle; and Honorary Doctor of Medicine from the University of Birmingham.

Sir Richard joined Glaxo Research in 1972 as Head of the Antibiotic Research Unit, a position he held for five years before taking up the appointment of Assistant Director, Department of Microbiology at The Squibb Institute for Medical Research. He became Director of Microbiology in 1979.

He then held the position of Associate Director of The Squibb Institute for four years and was made Vice-President, Infectious and Metabolic Diseases at The Squibb Institute in 1983, a position he held until 1986 when he re-joined Glaxo as Deputy Chief Executive of Glaxo Group Research Limited. He was appointed Group Research and Development Director, Glaxo plc and Chairman and Chief Executive of Glaxo Group Research Limited in 1987.

Sir Richard was appointed Deputy Chairman and Chief Executive of Glaxo plc in March 1993. Following the acquisition of Wellcome plc, Glaxo plc was renamed Glaxo Wellcome plc on May 1, 1995.

The issues that our guest will be addressing today affect us personally, politically, and economically. They do so now and they will in the future.

Please join me in welcoming our guest, Sir Richard Sykes, to The Empire Club of Canada today.

Richard Sykes

Ladies and gentlemen, I am delighted to have been invited to speak to you today about the quest for new medicines and the contribution that research-based pharmaceutical companies like Glaxo Wellcome can make to it.

Over the last two decades there have been enormous advances in a number of fields of science and technology, many of which have had an impact on the way in which human diseases are diagnosed and treated. The last few years have also seen very significant changes in the way that health care is delivered to our communities. Health-care providers, whether public or private sector organisations, are only now coming to terms with some radical changes in the societies they serve. These changes will have had an impact not only upon the providers but also upon those industries such as the pharmaceutical and diagnostic industries which supply them.

The brand-name pharmaceutical industry is an international industry serving a global market. We must produce medicines for the world and be able to sell them to the world. It is also a market that is highly fragmented with many players and even Glaxo Wellcome, which is the largest company in the world industry, only has about five per cent of the market. This is why we have seen a process of merger and acquisition over the last few years and this will be a continuing feature in the years to come.

The brand-name pharmaceutical industry has a strong tradition in science and technology emerging originally from the chemical industry. It's an industry that has became successful because of the preparedness of the companies to invest very significantly in its R&D. The processes of drug discovery and development are costly and take many years before any return on investment is seen. Our success is therefore critically dependent upon what is done in our laboratories and also upon our ability to gain protection for our inventions through patents in the major territories of the world in which we must sell our products and services.

We must also be focused in our R&D, pursuing the central aim of finding significant new medicines for the common diseases of mankind.

The industry has also shown an ability to respond to a changing environment, firstly in the field of science with a move away from chemistry as the driving discipline, to the biological sciences, and most recently into biotechnology and the molecular and cellular sciences.

More recently the industry is having to adapt to major changes in the marketplace worldwide, leading to changes in the demand for our products.

In sophisticated societies like Canada, people have come to expect a high standard of health-care provision. To a large extent this is due to the success of the health services themselves and the efforts of the pharmaceutical industry. Over the last 40–50 years we have seen the virtual eradication of many life-threatening infectious diseases through the use of immunisation and effective antibiotic treatment. Polio, smallpox and tuberculosis are three such diseases. This has created the expectation that those responsible for our health services should be able to diagnose and treat the diseases of our time—the malignant and degenerative diseases—effectively. Patients therefore place greater demands on their health-care providers and expect state-of-the-art facilities and investigations.

The most significant pressure, however, arises from demographic change. Again this is attributable to improved health care—the population of most developed nations is aging. A new spectrum of disease is emerging. Diseases of the elderly such as arthritis, senile dementia and Parkinson's disease are assuming greater prominence and are placing an increasing burden on the community. An inevitable consequence of this demographic trend is that there is a decreasing ratio of those who are earning compared with the retired, reducing the revenue available to fund public-sector health services. Unemployment is another factor putting pressure on social security budgets.

The political, economic and social climate in which we find ourselves is changing at an unprecedented pace. The challenge for the pharmaceutical company is to keep up with the changing patterns and respond to them effectively.

The rate of increase in costs of delivery of health care has forced health-care providers worldwide to seek to reduce their costs. Patented pharmaceuticals, though only 14 per cent of the overall Canadian health-care bill, are a target. This is putting pressure on the industry to seek new approaches.

What is emerging in the industry are two views of the way forward—investment in science and technology to create significant new medicines or investment in the means of provision of existing medicines to ensure continued revenue from old medicines. In Glaxo Wellcome we believe that the first view is the better one, both from the point of view of the development of the industry and also because there will be a virtual cessation in the advance of therapeutics into the difficult fields of medicine that now present our most formidable challenges, unless companies take this approach.

We must understand what the world of medicine—the patients, the doctors and the providers of funding for health care—is looking for from the industry. New drugs to cure, or at least modify, serious common diseases will only come from an approach to drug discovery which is based on understanding and rational design of novel molecules—a move away from "me too" medicines towards totally novel classes of medicines and therapies.

Therefore if it is to remain successful, the pharmaceutical industry must:

- concentrate on drug discovery for the major diseases;
- focus on understanding disease process;
- identify novel drug targets effectively; and
- maintain efficient processes for worldwide drug development and registration.

As a company, Glaxo Wellcome is strongly committed to fighting disease. That commitment naturally extends to the increasing diseases of the elderly, as well as established targets like cancer, AIDS and respiratory disease and older diseases like tuberculosis which are threatening to make a comeback as resistance to existing treatments builds up. Our commitment is graphically demonstrated by the fact that in 1996 we are investing £1.2 billion—or approximately $2.4 billion Canadian—in the research and development of new medicines. Within Canada itself we are spending some $50 million per year on R&D, about 13 per cent of sales revenue. Glaxo Wellcome research and development funding creates high-quality research positions at universities, hospitals and research facilities in Canada—Canadians developing and refining pharmaceutical products for use in this country and around the world. The largest of these projects is the Glaxo Heritage Research Institute at the University of Alberta that was established in 1992 and continues to be supported with more than $750,000 annually in operating grants.

The difficulties we face, and the major challenges that lie before us are, however, fortunately only one side of the picture. The other side is the unprecedented opportunities we now have, through harnessing science and technology, to understand disease processes and identify targets for therapeutic intervention which may produce cures.

The explosion of biological knowledge is giving us an understanding of the cellular and molecular basis of disease which means that we are now able to target our search for new treatments much more effectively than in the past.

Advances in electronics and computing have provided robotic methods of carrying out tasks many more times efficiently than was hitherto possible. This is opening the way to high throughput screening for drug discovery and even speeding up chemical syntheses.

Combinatorial chemistry, for example, enables us to identify new molecules much more efficiently and effectively than we could even a few years ago. In California, Affymax, now part of Glaxo Wellcome, has machines that can make 100,000 molecules in a single day, whereas a chemist might make one a week. That is an enormous productivity gain, a paradigm shift.

Let me briefly discuss some of the developments that are emerging from the human genome project—itself a product of the enormous expansion of our capability in molecular biology and biotechnology. Clearly this programme will lead to the development of methods for replacing or removing harmful genes in patients. But of potentially greater significance is the contribution it is going to make to the development of new medicines. The human genome project is an immense task of identifying, mapping and sequencing the 100,000 or so genes that make us what we are. Once these genes are identified and synthesised the next step is to discover their molecular products and define their function. Then we will have new insights into various diseases and see new ways of treating them. Through genetics we have come to understand the cellular and molecular basis of disease; a process we hope to repeat for other conditions.

Developments in information technology can also facilitate the delivery of cost-effective health care through disease management. A disease-management system is a communications network, involving those responsible for treating and monitoring the patients, which allows flow of data from the clinical centres—hospital clinics, wards and laboratories, GP offices and also pharmacies—into the data-management system of the disease-management supplier. The data will include diagnostic information, treatment regimes used, information on patient responses and compliance and any adverse reactions. All information input into the system is analysed and updated, and an outcomes analysis leading to a best-practice guide for the particular disease and patient type is fed back to the clinical centres. In addition, the doctors will be provided with up-to-date records concerning a particular patient. Thus the disease-management system is nothing more than the provision of access to the cumulative "wisdom" and practices of those handling the patient problems, and permitting this to be applied more widely in the most cost- and clinically effective manner.

In the case of asthma, for example, it is being found that by using disease management, expensive hospital admissions, particularly in emergencies, have been reduced, with the emphasis being moved to the primary health-care area. The extent of use of medicines in the moderate to severe patient groups has been reduced, with an increase in drug use in patients with the milder forms of the disease. Overall the cost of treating asthma effectively has been significantly reduced. Here in Canada, Glaxo Wellcome is supporting the formation of Community Asthma Care Centres in selected hospitals across the country. These Centres provide treatment, self-management skills and education support for asthmatics and their families.

From the few examples I have given, it is clear that there is enormous potential in science and technology to bring about improvements in the delivery of health care, the treatment of patients and the provision of better medicines.

However, effective delivery of health care requires the development of partnerships involving governments, the health-care professions, the academic scientific community and the pharmaceutical and other health-care industries. We must all be prepared to recognise each other's contribution and our mutual dependence.

The role of government is crucial, not least in creating an environment in which innovation is encouraged and rewarded. This is vital if the full potential of the exciting advances in science and technology which I have described is to be realised and if further such advances are to be made in future years.

Governments have a duty to foster innovation by ensuring that inventions receive proper patent protection. Many of the major advances in medicine in recent years have emerged from the laboratories of the pharmaceutical industry, but none of them would have happened if the companies concerned had not had the assurance of a limited period of market exclusivity before copy products became available. This is more important than ever today, as the costs of research and development continue to escalate.

Once a patent is established, it takes an average of 10 years and anywhere between $400 and $550 million to deliver a new pharmaceutical product to the market. Glaxo Wellcome, like other brand-name pharmaceutical companies, expects the standard 20-year patent protection offered all other products in the Canadian marketplace. The first 10 years are spent developing our products, leaving only 10 years of effective patent-protected sales. European countries, the United States and

Japan offer 14 to 18 years of effective patent protection for pharmaceutical products.

Glaxo Wellcome is committed to a continuing strong presence in Canada but must be assured that policy support for the company's initiatives will be continuing. Canada needs to continue to provide a positive environment for pharmaceuticals. Without the 20-year patent protection available in just about every other developed country in the world, Canada can expect to fall behind in terms of investment in bricks and mortar as well as Canadian-based research and development of pharmaceutical products.

Linkage regulations were passed in conjunction with Bill C-91 and require generic companies to prove that they are not infringing upon the patent of a brand-name company before a Notice of Compliance is issued for the generic version of an innovative medicine. Linkage regulations are essential for effective patent protection, and every research-based company, including Glaxo Wellcome, will be forced to review its investment strategies should full 20-year protection disappear from Canada.

Efficient and effective approval processes are also critical to the successful launch of new medicines. In most countries, brand-name pharmaceutical companies can expect to wait a year or less for review and approval. In Canada, while there has been considerable improvement, it still takes 18 months for a new drug to be approved by the Health Protection Branch for sale in Canada.

But that is not the only waiting time for new medicines in this country. Each province then goes through a separate approval process to list new products on its formulary. Creating a more efficient approval process would benefit the patients, by speeding up access to new medicines, and reducing administrative costs for government and the industry. It would certainly make the

20-year patent-protection time-frame even more competitive internationally.

Strong patent protection and efficient approvals of new drugs are therefore essential components of the business framework within which pharmaceutical companies operate. But governments also participate more actively in the pharmaceutical marketplace, either directly as purchasers or more indirectly through their reimbursements to patients for the cost of their medicines.

This role inevitably gives governments a short-term interest in cost containment, which can conflict with its longer-term interest in the health of the research-based pharmaceutical industry. I am well aware of the need for governments to exercise restraint in their spending, but if the squeeze is applied too hard to the industry, research budgets will inevitably be reduced and much needed new treatments will take longer to arrive.

Like all brand-name pharmaceutical companies in Canada, Glaxo Wellcome has held the line on prices for its patented products, which increased a mere 2.1 per cent between 1987 and 1994. That is well below the rate of inflation. Patented medicines reflect only 2.4 per cent of health-care products and services costs.

Glaxo Wellcome has a major role to play in helping keep the costs of health care in check. This means we are working with doctors, hospitals and pharmacists on new, better and cost-effective ways to use medicines.

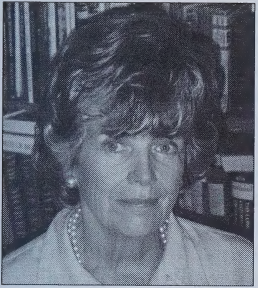
In June, Glaxo Wellcome launched an 18-month pilot Asthma Clinic at Centenary Health Centre in Scarborough. The clinic is focused on helping patients better understand and learn to control their asthma. The goal of the pilot is to reduce emergency visits and overnight care that currently accounts for hundreds of thousands of dollars in expense to Centenary each year. Better educated patients and cost savings will work hand-in-hand to save money. For Glaxo Wellcome, this is an opportunity to take an active role in improving health outcomes in patients.

Canadians are expecting health-care solutions, not a reduction in health-care services. Glaxo Wellcome is actively working with health-care providers to find and implement those solutions.

Next week Glaxo Wellcome will be officially announcing, along with Sunnybrook Health Science Centre, the Glaxo Wellcome/Sunnybrook Drug Safety Clinic. This clinic will diagnose, treat and conduct research on adverse drug reactions. Unique in Canada, the clinic would not be able to exist without a strong collaboration between the private and public sector. Again, the goal is to improve patient outcomes while creating opportunities to reduce health-care costs.

I believe that the advances in science and technology which I have described provide great opportunities for the pharmaceutical industry and government to work together to bring better and more cost-effective health care to people in Canada and throughout the world. Glaxo Wellcome looks forward to playing its full part in this vital task.

The appreciation of the meeting was expressed by Bill Laidlaw, Director, Government Relations, Glaxo Wellcome and a Director, The Empire Club of Canada.



October 3, 1996

Dr. Dorothy Wedderburn

Professor, Management School, Imperial College of Science, Technology and Medicine, London University

UNIVERSALITY UNDER SIEGE

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Marcia McClung, President, Applause Communications and a Director, The Empire Club of Canada; Marilou McPhedran, Lawyer, Health Consultant; Rev. Prue Chambers, Rector, St. Nicholas, Birchcliff; Peter White, Chairman, Unimedia Inc.; Catherine Charlton, Principal, Charlton Management, Member of the Board, the Ontario College of Physiotherapists and a Past President, The Empire Club of Canada; Bill McLeod, President and CEO, Women's College Hospital; Jennifer Kruk, OAC student, Rosedale Heights Secondary School; Catherine Callaghan, Health Editor, Chatelaine; William Wilkerson, President and CEO, Liberty Health; and Nancy Gelber, President, Lionel Gelber Foundation.

Introduction by Julie Hannaford

Yesterday, The Empire Club was addressed by Sir Richard Sykes, the Deputy Chairman of Glaxo Wellcome plc. Sir Richard spoke about the advances in pharmaceutical science. In doing so, he addressed the way in which the dramatic developments and changes in the pharmaceutical industry have created in part the sea change in how we look at health care. Essentially, because medical science has delivered breakthroughs in almost every field of health, causing those diseases and syndromes which we once viewed as unsolvable to be viewed as solvable, the frontiers of possibility have been pushed back. As a result, we both expect and demand that our health-care system deliver fast if not immediate solutions to our health-related problems.

But, as Sir Richard made clear, the delivery of highly advanced genetic engineering and the delivery of modified and highly effective pharmaceutical treatments requires money and investment by way of research and development. Our medical knowledge and pharmaceutical horizons have been advanced and expanded because of the capital markets underpinning them.

The second pillar of the health-care structure also involves money, but in a different way. Universality requires the delivery of health-care services and products to all Canadians as a matter of right, and governments increasingly have less money. Hence the pressure to maximise efficiency in the delivery of health care, and to deliver pharmaceutical products at a reduced price. As Sir Richard so eloquently put the proposition, however, the pressure for universality and economic deliveries of health care threatens to undermine the research and development that created our demand for excellence in health care. If we focus on the economies of delivering health care and pharmaceutical treatments at the most efficient cost to taxpayers and if we focus on that exclusively, we are at risk of becoming a third-world nation.

Dr. Wedderburn's address to The Empire Club of Canada today, therefore, is particularly timely, for she has agreed to address The Empire Club on the issue of Universality Under Siege. Dr. Wedderburn is the 1996 Visiting Scholar in a programme funded by The Lionel Gelber Foundation.

The programme is administered by the Canadian Institute of International Affairs in association with the Centre for International Relations and the University of Toronto. The base of the programme is developed by an advisory group, consisting of Haroun Saddiqui of the Toronto Star; Professor Janice Stein of the Political Science Department of the University of Toronto; Dr. Sylvia Ostry, Chair of the Centre for International Relations; Bill Boyle, Director of Harbourfront; Alan Sullivan of the CIIA; and Nancy Gelber, President of The Lionel Gelber Foundation.

The goal of the Lionel Gelber Fellow/Visiting Scholar Programme is to involve all citizens in a public policy issue which is international in character. This year, the issue is "the devolution of medicare." The topic could not be more topical or timely.

The Empire Club of Canada is fortunate to be addressed on the issue of universality by Dr. Wedderburn. If I summarised Dr. Wedderburn's curriculum vitae for you, I would violate the rule of brevity associated with introductions of speakers. While a brief tour of Dr. Wedderburn's background and career in the field hardly does our speaker justice, you will be interested to know some of the highlights of learning and distinction that Dr. Wedderburn brings to her address on this important topic today.

Dorothy Wedderburn graduated in economics from Cambridge University in 1946 and for the next 15 years was employed as a researcher in the Department of Applied Economics, Cambridge, specialising in aspects of social policy particularly the social and economic problems of aging. In 1965 she moved to join the teaching staff of the Imperial College of Science and Technology, London University, the foremost specialist institution in Britain for teaching and research in science and engineering. Her specific brief was to broaden undergraduates' engineering education, and she eventually established the Department of Social and Economic Studies of which she became the first head in 1978, having been appointed to a Chair in Industrial Sociology in 1977. Her research interests had expanded to include problems of organisation and industrial relations. Over this period she was much involved in public appointments, as a member of the Royal Commission on the Distribution of Income and Wealth (1974–78); of the Council of the Government Advisory Conciliation and Arbitration Service (1976–82).

In 1981, she accepted the appointment as Principal of Bedford College, University of London, thus becoming the first woman head of a university in the U.K.

When she retired in 1990 her involvement with health-care matters became her major commitment. She was appointed to a Department of Health Committee on Medical Work Force Planning; she became a non-executive member of a Health Authority and a consultant to a Regional Health Authority on organisational and management problems of the National Health Service. All of these are continuing activities.

For 15 years she has been the President of the Fawcett Society, the oldest organisation in the U.K. campaigning for equality between the sexes. She is presently Senior Research Fellow in The Management School, Imperial College of Science, Technology and Medicine and has been awarded honorary doctorates from the Universities of Warwick, Loughborough, Brunel, City and Cambridge.

Please join me today in welcoming our guest, Dr. Dorothy Wedderburn, to The Empire Club of Canada.

Dorothy Wedderburn

Well it's a great honour for me to be here and I take this opportunity of expressing my gratitude to the Gelber Foundation for financing and arranging my visit and also to the Centre for International Relations which has been responsible for planning the programme and seeing me through it—literally seeing me through it. I'm very grateful to all of you for this.

Although I was vaguely aware that Canadians were very proud of their national health service before I came here, I think the notion of pride has been brought home to me much more sharply, although in this very conflictual context where you are having to discuss whether there should not be major changes in it. I think you have a great deal of admiration, very close to that which Britain feels about its NHS, for the health-care system that you introduced here. I think the British view was well expressed by Barbara Castle, minister of health in the late 70s, when she said: "Intrinsically, the NHS is a church. It is the nearest thing to the embodiment of the Good Samaritan that we have in any aspect of our public policy."

For 40 years the principles on which the original National Health Service was founded in 1945 under the leadership of an Aneurin Bevan, then minister of health, rested on four major tenets: that it should be a comprehensive service; that it should be universally available; that there should be equality of access; and that it should be free at the point of use. And in Aneurin Bevan's terms, it should also be the very best that could be provided. Those tenets have remained remarkably resilient over time. Even when other aspects of the welfare state, which the National Health Service was an intrinsic part of in 1945, were modified or even whittled away, those principles I've just enunciated of the NHS survived. It appeared even to survive the introduction of Mrs. Thatcher as prime minister and the changes which she introduced in

1990 because the introduction to those changes still contained the declaration that the principles that have guided the NHS for the last 40 years will continue to guide it into the 21st century. The NHS is and will continue to be open to all, regardless of income and financed mainly out of taxation.

I would like to explore with you today whether that is a true statement and to address three issues. First I would like to assess the strengths and weaknesses of the NHS until 1990, the year of the big changes introduced by a conservative government and by Mrs. Thatcher; second, to look at the philosophy which underlies the changes which were introduced and what the expectations were from those changes of 1990; and third, to assess the consequences of these changes and where we might be going and from that maybe we can decide if there are any lessons for Canada.

The strengths of the NHS seemed to me to be five in principle. It was genuinely comprehensive. The rejection of a notion of insurance, whether it was public or private insurance, meant that there was no exclusion of any member of the population on the basis of non-payment of contribution. Indeed within a few months of vesting day, after the passage of the act, 97 per cent of the population had registered with the general practitioner of their choice.

Secondly, it was and has remained administratively extremely simple right up until 1990. You had your health service number which admitted you to the services of the general practitioner of your choice, but that health service number then travelled with you if you had to move to other parts of the health-care system. It was relatively simple to change GPs subject to certain safeguards against frivolous use but the administration and the costs of administration remained extremely low.

Thirdly, the basic organisation up to 1990 with a division between the primary care system—the general practitioner— and the secondary care system provided by hospitals with specialists was a very conducive one to being economical with the use of medical care because the general practitioners acted as gatekeepers to the expensive secondary care services. The main opposition to Bevan's proposals in 1945 had come from GPs who feared becoming state-employees and they succeeded in negotiation to retain their status as independent contractors. They are independent, self-employed people, but contracted to the NHS if they choose to do so and most of them have chosen to do so. They are limited in where they practice to some extent to avoid over-doctoring in particularly over-populated areas and they lost their right to buy and sell practices. Their income comes from a basic principle of capitation. I register with a GP who then gets an annual sum of money for looking after me. I may not go anyway near that general practitioner for three or four years but that sum of money will form part of her income all through that period. So there's a control on the amount of expenditure on the primary care service and the GPs act as gatekeepers to hospital care because the patient cannot refer themselves to consultants except through their GP and except of course in cases of accident and emergency. Thus a third strength of the NHS is the containment of direct patient-generated demand through this two-stage system.

The next important point is finance from direct taxation and that sum is negotiated by the Chancellor of the Exchequer who is obviously always trying to restrict the sum of money available for health and the minister of health, who is always arguing for more. But there is a tight control centre. From that the budget is devolved down to local level.

As for private care, which I know is a matter of great concern and interest to you today, there has been a private care system ever since 1945. Consultants employed full-time in NHS hospitals are allowed to do private practice up to 10 per cent of their gross salary. They can, however, opt to go for a part-time contract and forgo this restriction for a reduction in their NHS income and then the amount of private practice which they can do is unrestricted. There's no doubt at all that over time the consultants have made use of this in some specialties more than others and in some geographical areas more than others because it is easier to do it in central London where there's a lot of demand for private care. It does seem that the possibility of doing some private work restricted in this sort of way has provided a useful safety valve against pressures from doctors to increase their incomes more than would otherwise be possible through their health-service activities.

None of these strengths have been undermined by the recent changes but what do I see as the weaknesses of the Bevan system?

Administrative costs were low but the size of the activity was enormous. You had the whole planning, execution and delivery of care undertaken under a single umbrella of the National Health Service which at that time was said to be the largest employer in the world. You can see the enormous complications that this raised and which introduced all sorts of inefficiencies and bureaucracies into the system and made it very unresponsive to changes which were occurring in the type of patient to be treated and in the expectations of the users of the service.

Secondly a weakness was the dominance of medical professionals in terms of deciding what was needed and how medical care was to be provided. Perfectly legitimate questions about quality or efficiency were rarely addressed in open discussion.

Thirdly one of the important changes over this whole period was that the patients themselves or the consumers, as I perhaps have to call them now, began to find a voice and have ideas about accountability and the need to pay more attention to the participation of the patient in the process of the delivery of medical care. Strangely enough, for a labour government-designed service there was no provision in 1945 for local representation or any kind of elected representation and that had to wait until 1975, but it still did not address the kinds of issues of participation which I just touched on. Whether you wish to call it a weakness of the pre-1990 health service or whether the health service itself was a victim of changes in society, industrial relations became a major problem. The doctors had always been extremely well organised, militant and vociferous, but nurses became more militant and with the upsurge in white collar unionisation from the 60s onwards, all groups in the work force became forces to be reckoned with. At the same time as government employees they were also the first targets of a successive wave of incomes policies attempting to constrain and restrain the wage increases and so their salaries were held back. This led to many confrontations and strikes which increased in intensity and which indeed formed the backdrop to Mrs. Thatcher's approach to the health service.

Finally there was growing criticism of the medical care itself for the long waits for treatment in certain areas.

To summarise up to 1979 I think that the founding principles were adhered to but there were some major problems emerging and I think there was no doubt at all that something would have happened. Indeed the Labour Government had set up a royal commission just before they left office. That would have led to some changes but not I think to the actual changes which did occur. I come now to the Thatcher reforms.

Most people expected a frontal assault upon the NHS with the return of Mrs. Thatcher for she was well known for her ideological commitment to private enterprise, to competition and indeed to her lack of trust in professions of all kinds. Doctors were only one of the number of groups of professionals who in one way or another found their rather comfortable positions attacked in her proposals.

From 1979 onwards there was much discussion in the inner circles of the Thatcher government about ways of moving towards a privatised system. Insurance was considered but the NHS has always been an extremely popular service and both political parties up until 1979 did not dare touch it. Even after 1979 Mrs. Thatcher found difficulty in touching it and when she did publish the proposals, actually drafted by Kenneth Clark, then Secretary of State for Health, there was not only a great deal of public outcry but response from the profession was enormously strong. There was very violent opposition from consultants in particular in some of the London hospitals but also from other groups in the employment of the NHS.

The basic principles have been modified not in essence but at the margins and we have been in a situation of continuous development and turmoil. Essentially it was a rather simple approach avoiding the issue of whether to privatise or not—trying to introduce an internal market which would produce competition but without introducing the notion of private ownership. There was a split between the functions of providers, the hospitals, community trusts, and the purchasers. Health authorities were set up with the budget devolved to them from the centre to purchase care on behalf of their population—population somewhere between 350,000 and 400,000—so that the health authority's job was in fact to decide what the health needs of their local populations were and to acquire those health services that they judged to be needed from the trusts. The hospitals became independent trusts who were there to supply the health care. Slotted into all this was still the primary care system with GPs providing as before but subject to much closer co-operation with the health authorities about the kinds of care they were providing. There was also the introduction of the concept of the fund holder. The health authority, if a general practitioner so decided, could hand over to that general practitioner a budget with which the general practitioner directly purchased health care for the people on his list. We now have 400 trusts, we have 80 or so health authorities, and as far as fund holding is concerned some 50 per cent of the population is now covered by fund holding.

One aspect of those reforms in 1990 which was not organisational but was very important indeed was the injection into the health service of a rather large increase in the budget for the next two years. This was an attempt I think to sweeten and to reduce the opposition to it. So can we evaluate these changes, this very radical attempt to introduce a market publicly funded into a public provision of health care?

I must say that it's extremely difficult to evaluate because there's been a great deal of developmental differentials, different kinds of approaches to the problem because so many of these units are quite small and they're encouraged to experiment. It's hard to get an overall picture of what is happening because there have been constant changes since 1990, not as I say in the basic idea but in the way in which it has been implemented. The government claims an increase in hospital treatments, some 4.3 per cent with an average over the previous 10 years of only 3.3 per cent but this is a very difficult figure to interpret. We do not know whether the base was accurate and there's some anecdotal evidence that the treatment has not improved. On the other hand, these famous waiting lists have undoubtedly been reduced because this was a major target presented to all the trusts by the central NHS executive. The target has been reduced from 18 months to a year for any kind of operation and most are dealt with much more speedily than that and any accident or emergency is dealt with immediately. There have been some unintended consequences of this drive to reduce waiting times. The GPs feel a loss of freedom as gatekeepers because they're now not free to refer their cases to any hospital of their choice as they were in the old system. They have now to refer them to a hospital with which their local health authority has a contract. I think the plus side is that there has been a much greater willingness to innovate among those GPs and trusts. There has been a very big increase in day surgery which you may say would have taken place anyway but it's been encouraged and a number of very innovative services like one-stop diagnostic centres for investigating suspected breast cancer and so on have developed and are providing a great deal of satisfaction to the patients.

It seems to me that the effects of competition are more doubtful and less rosy. It's true that they have not been very wide-spread. There's been no big bang, as it were, with health authorities shifting their contracts from one provider to another. There have been some shifts that are noticeable, shifts from outer London buyers from inner London suppliers because prices are cheaper in outer London. There have been some shifts of contract from non-specialist providers to specialist providers and even some headline-hitting initiatives like buying cataract operations from France because the waiting time involved in such operations in some parts of Britain were so long. But if any hospital or trust has come anywhere near closing the government has showed a loss of nerve and bailed it out. The pattern of relationships between purchasers and providers, as I have observed it from my seat on the health authority, is one which more nearly mirrors a relationship of co-operation rather than one of competition. The moderation of competition in its crudest forms seems to me to lend support to those who argue that the simplistic model of competition is not appropriate for health care and that collaborative transactions between purchasers and providers and between doctors and patients are the kinds of relationships which can be built up over time and which provide the best result. There are indeed two areas of health care where the market has proved noticeably unsuccessful and yet they are major consumers of resources of health care and that's the care of the aged and of the mentally ill, together accounting for over half of total NHS expenditure. In our discussions about health care I think we sometimes forget that these are two of the areas which are most important and which are growing. In my health authority we now spend a quarter of our total budget on mental illness, being a central London authority with a growing demand.

I worry because it seems to me that the present structure of the NHS has not delivered great advantages in economy and use of resources. It has admittedly opened up some possibilities of innovation but it also opens the way to a steady but slow process of privatisation and some cynics would say that that was precisely the intention. It was politically far too sensitive to confront the NHS as the water supply or the electricity supply were confronted when they were privatised. It was far too politically sensitive to do that so you create a situation where it becomes easier to interrelate the existing relatively small private sector with the public sector. Last week it was announced that one of our major teaching hospitals, the Royal Free in London, had got a contract with a private health provider to develop a specialist oncology ward with eight rooms for intensive treatment. The details of the arrangement are basically the input of capital from the private health provider but the concept obviously is that special terms will be given to their patients when they need treatment. These sorts of developments are clearly, in my view, laying the possibility of increasing the potential for the development of a two-tier system and by two-tier I mean a first-class system and a second-class system—a first-class system for those who can pay and a second-class system for those who have to rely on the public system. What does the Labour Party propose to do? It is very unclear at the present moment. The Labour Party is reluctant to open its mouth to say anything that might be taken to mean that they might raise more in taxation and spend more publicly. But ignoring that, what they propose to do is not to undo the whole of this system of an internal market but to try to modify it in such ways that it will be protected against further incursion from the private sector but at the same time retain some of the benefits which I talked about earlier.

Well are there lessons for Canada? The role of our primary-care system as gatekeeper and the capitation method of payment of GPs has much to commend it in terms of enabling control over the total spent on health care. It can of course be modified if you are asking your general practitioners to do additional jobs. It can be modified to encompass those but it does mean that there's no incentive for a general practitioner to undertake unnecessary treatments.

Secondly, the simplicity of the administrative system of registration with a GP has much to commend it and what we are seeing now in the new system is a big increase in administrative costs as more and more people are required to handle contracting not just among the GP fund holders but also among the trusts. So in terms of the administrative efficiency I think we are losing that and any change in the system has to have an eye to the administrative costs of change.

Thirdly, I would say that the attempt to introduce a market and to use competition as a means of increasing efficiency is not only not successful but has also had certain undesirable consequences because emphasis is put on balancing the books and meeting the bottom line when it should primarily be concerned with the quality of health care. The displacement of attention from quality which is not always easily measurable to the things that can be measured seems to me to be totally undesirable in a health-care system.

Canada and Britain I think share problems if we wish to retain a universal system of health care. In your case there is pressure from the U.S.A. where there is a model of a basically private health-care system, with the pressure to increase salaries for your physicians and the attractions of serving in a situation where incomes are not limited. However you always have to remember the number of people in the U.S.A. who simply have no access to their health-care system with 40 million people excluded from the insurance system.

In our case, we have the possibility of the growth in importance of the private health-care system. I think the lessons for us both are that there is a lot more than the bottom line to health care and that there is a big contribution from a national publicly financed health-care system towards the general well-being of society. Aneurin Bevan talked about society becoming more serene and spiritually healthier if it knows its citizens have at the back of their consciousness the knowledge that not only they themselves but all their fellows have access to the best that medical care can provide. I find that a very important thought in a society in Britain and I suspect in Canada too where inequalities of other kinds are increasing greatly and contributing to a quality of life in our society which is increasingly torn by conflicts of all kinds. I think we sometimes forget that universal health care can contribute to a sense of unity in a society such as we have in Britain and in Canada. Thank you.

The appreciation of the meeting was expressed by Catherine Charlton, Principal, Charlton Management, Member of the Board, the Ontario College of Physiotherapists and a Past President, The Empire Club of Canada.

October 10, 1996

John Hunkin

President, CIBC Wood Gundy

Robert Gemmell

President and CEO, Salomon Brothers Canada

WILL CANADIAN BANKS SURVIVE IN THE GLOBAL ARENA?

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Margaret Samuel, Manager, Capital Markets, National Trust and a Director, The Empire Club of Canada; The Rev. Kim Beard, Rector, Christ Church, Brampton; Brian Gray, Senior Vice-President, Canadian Federation of Independent Business; Dominic Barton, Principal, McKinsey & Company; Stanley Hartt, Chairman, Salomon Brothers and President, The Canadian Club of Toronto; Ross DeGeer, President, Government Policy Consultant; John Sadler, Senior Vice-President, Newcourt Credit Group and a Director, The Empire Club of Canada; Soma Das, OAC Student, Western Technical School; and Frank Potter, Partner, Emerging Markets Advisors Inc.

Introduction by Julie Hannaford

Since it was established in 1903, The Empire Club of Canada has been addressed by Prime Ministers Borden, King, Bennett, Meehan, St. Laurent, Diefenbaker, Pearson, Trudeau, Clark, Turner and Mulroney. Internationally, The Empire Club of Canada has been addressed by Neville Chamberlain, Winston S. Churchill, Indira Ghandi, Billy Graham, Dag Haamerskold, Edward Heath, Margaret Mead, Golda Meier, Richard M. Nixon, David Rockefeller, Margaret Thatcher, President Ronald Reagan and Bill Gates. I make reference to this distinguished list of speakers, not only because it tends to have a rather bracing effect upon those who are about to take the podium, but also because the list illustrates the way in which The Empire Club of Canada through its speakers provides a record of the political and industrial changes which define our history, which in turn defines us. In our history we have had, as the list I have provided indicates, world leaders address issues of international and national significance; we have had jurists address changes in the law that affects our governments; we have had presidents of banks address geo-political and constitutional issues from an economic perspective. Many of our speakers have at one time or another been investment bankers. However, my tour of the list of speakers who have addressed The Empire Club of Canada indicates that we have never had investment bankers address The Empire Club of Canada on investment banking. So, putting forward the prospect of having not one but two Empire Club of Canada meetings devoted to investment banking made for rather interesting debate amongst the directors of The Empire Club of Canada.

Once having convinced the directors that the topic of investment banking in Canada and internationally would be both important and interesting, questions arose as to the ability of the speakers to engage the audience. Primary amongst the questions asked was the following: "Yes, that's all very well, but can these people be amusing?" Throwing caution to the wind, I responded, "Of course they can. I am sure that within the research library I use, I'll find reams of amusing anecdotes told by or about bankers and investment bankers. Trust me."

Thus began the research. To my dismay, I found that there are few if any anecdotes or jokes told by or about bankers. This means one of two things. Either bankers and investment bankers are so universally loved that the prospect of humour is far from anyone's mind or the industry itself has not yet achieved sufficient prominence to warrant the development of industry-wide jokes.

It is my suspicion that this is about to change. Canada has developed a history of thriving on being self-effacing. In the investment industry, deregulation, the disappearance of those barriers to trade that kept us insulated and insular, the demands created by changes in technology, and shifts in demographics, mean that we shall not survive if we operate outside the global marketplace.

That means, in the investment banking industry, we have to compete. Fundamentally, the question that our speakers are here to address is whether we really can compete.

John Hunkin is the President of CIBC Wood Gundy. He has been with the CIBC since 1969. Mr. Hunkin moved to Wood Gundy as President and Chief Operating Officer in 1988. Mr. Hunkin has been a witness to changes in the industry, as well as a participant in creating those changes. He has very graciously agreed to address the Canadian perspective, and to do so first.

Rob Gemmell is the President and Chief Executive Officer of Salomon Brothers Canada. He brings a special perspective to the issue today. His academic training is both Canadian and American, and so is his business career. Before he was appointed President and Chief Executive Officer of Salomon Brothers Canada, he was Vice-Chairman of Merrill Lynch Canada, which position he arrived at after working with Morgan Stanley in New York. Mr. Gemmell has very kindly agreed to provide the responding and contrasting perspective to that which Mr. Hunkin will provide to us.

Please welcome our speakers today, Mr. John S. Hunkin and Mr. Rob Gemmell.

John Hunkin

Good afternoon everyone! It's a pleasure to be here. In addition to thanking Julie Hannaford for her kind introduction, I want to express my gratitude for the speaker order. I think it was Mark Twain who said: "Adam had a good thing. When he said something, he said it first."

Today I've been asked to answer the question: Can Canadian banks survive in the global arena? The short answer is yes. But who cares? We bankers are so unpopular that jokes once saved for lawyers and accountants are now aimed at us.

I was asked last week what you have with a thousand bankers buried up to their necks in sand. A critical shortage of sand! So clearly bankers have arrived—but can we survive?

Why shouldn't we, or any Canadian institution, survive if not thrive in the global marketplace? The basic criteria are not that complicated. You need a good credit rating—double A or better. And you need size. Large Canadian banks have both.

You also need a strong customer franchise. And that's where the answer starts to get complicated. Satisfying a client base that operates in global markets requires an entirely new set of skills and a determination to be the best. So the better question might be: How many Canadian banks will equip themselves for the challenge of the global marketplace?

Not every bank sees that marketplace as part of its strategy. But if I can briefly wave the flag, I think it's important for Canada that some Canadian banks make the global choice. It creates opportunities for clients and provides export earnings, dividends and tax revenues for shareholders and governments. If you are in business to grow, you know that Canada is a small market. That makes it a secondary market for many companies and banks in the international financial markets. The Canadian banks that make the global choice will ensure that we can compete for our clients' international business.

But it means we have to match or beat the best in the world. Can we do it? My answer is "yes."

CIBC Wood Gundy made the global choice three years ago. And I don't think it's a secret that we have aimed at far more than just survival. We made the decision when we saw increasing numbers of our North American clients use the global markets to grow and satisfy shareholder expectations.

Furthermore, the new competitive environment was being driven by financial deregulation, the elimination of trade barriers, changing demographics, and technology that could transport information and capital around the world in seconds. So, when we stepped back and looked at that picture through a global lens, we came to a clear conclusion. If we didn't align ourselves quickly with these global forces, we were going to become irrelevant. That was the real survival issue. We weren't going to stand by and watch a sizable chunk of corporate Canada reach beyond our borders without us.

And if all this wasn't troubling enough, we were also experiencing a new wave of competition from international banks. They were already operating in markets that our clients wanted to reach. And those banks did what you would expect. They targeted our biggest and best clients. They promised new horizons, new possibilities for those customers—our clients.

Our challenge was clear. To remain relevant, we made the global choice. We chose an aggressive strategy focused on four key elements.

First, we targeted selected industries where we had a competitive advantage. We already had a strong franchise in energy, mining, forestry, real estate, technology and multimedia. And we added industry sectors like aerospace and defense. We built a U.S.$4 billion aviation finance empire in just seven months.

Second, we added new product capabilities. We needed the critical financial tools to make it easy for our clients to pursue their global goals and our growth. Those financial tools included derivatives, high yield, structured trade finance, and asset-based finance. We targeted the very best people in the world in these technically complex areas. And we now have one of the world's top-ranked derivatives teams. And our high-yield team continues to break into new financial territory. We're one of the major high-yield underwriters in the U.S. Our key competitive advantage was demonstrated in some recent billion-dollar deals. We can service a company's entire balance sheet from senior to subordinated debt and from private to public equity.

Third, we extended our industry and product strengths to our international network across Europe and Asia. And we strengthened our commitment to other key markets. New York was a clear priority. It's now our global centre for derivatives, high yield and structured finance. And we became a primary dealer in U.S. government securities to support that commitment.

Fourth, we integrated our corporate and investment banks to give our clients access to the full range of our capabilities. Our clients said they were tired of banks who just pitched products, but were not prepared to offer integrated solutions. They didn't want to fit the products together to create a solution. They wanted us to do it.

But we had to integrate two very different cultures with two different lifestyles. When I joined Wood Gundy from CIBC in 1988, I was told the reason bank presidents don't drive Porsches is they don't like to sit that close to their drivers. But I still don't have a Porsche or a driver!

Integration has given us powerful new tools. We can now design and deliver custom-tailored solutions with seamless service that only an integrated bank can provide.

It's clear that our strategy is working. "Euromoney Magazine" named us best Canadian securities firm two years running. They said: "CIBC Wood Gundy led the way in marrying commercial and investment banking." The Globe and Mail reporters here today may recall an article written in August which said: "Critics who once derided CIBC's ambitious expansion into derivatives and high-yield debt underwriting and its hell-bent integration of investment and corporate banking have grown quiet." The article goes on to say: "Profits have begun to flow and clients have shown a preference for one-stop shopping to meet their financing and risk-management needs."

I know it's not polite to brag, especially in front of a microphone. But I'm very proud of the progress we've made. Today, CIBC Wood Gundy is a Canadian bank that can compete and win against the strongest global competitor.

We're now ranked as the number-one arranger for U.S. project finance throughout the Americas. And we're number seven in the world. We've also jumped up the league tables in Project Finance advisory mandates. That's particularly impressive because we only started to focus on advisory services three years ago. We're also ranked number two for U.S. Exim Bank lending. "Global Investor" magazine put us on their superstars' list for derivatives. And "Risk Magazine" has just ranked us number two for credit derivatives. In these independent rankings, we are solidly in the top ten, often number one or two, or key global financial services.

And the very intense competition from firms such as Salomon Brothers make it critical for us to maintain our financial agility. Relentless competition has a way of raising the bar on excellence. Regardless of the industry, the market leaders are those who invest in being the best. And CIBC Wood Gundy has made that investment and is not only surviving but succeeding in the global marketplace.

On that note, I turn the podium over to my worthy competitor from Salomon Brothers who was well-trained at Wood Gundy. Please join me in welcoming Robert Gemmell.

Thank you!

Rob Gemmell

Good afternoon ladies and gentlemen. When I was excitedly telling my wife how I had been asked by Julie to come off the bench, so-to-speak, to replace your regularly scheduled speaker today and speak at the prestigious Empire Club, the only thing she said to me was: "Don't try to be funny; don't try to be intellectual; just be yourself." And what am I? John, your introduction describing me as a "worthy competitor from Salomon Brothers," which of course I can only aspire to be, is a nice segue into my topic today. I would suggest that five to 10 years ago, no major Canadian dealer—certainly not one as prestigious and dominant in Canada as Wood Gundy—would have paid much attention to the competitive threats from international investment dealers and certainly not described them as worthy competitors.

I am here to talk to you today about how, over the relatively short time-frame of just the last five years, fundamental changes have taken place in the Canadian marketplace. Combined with a dramatic refocusing of the strategic and capital market requirements and objectives of our Canadian client base, this has resulted in a relentless and unstoppable trend toward these clients adopting primarily a North American marketplace focus—a fundamental change from their traditional strict Canadian marketplace focus of five years ago.

However, and this is where I differ perhaps most dramatically from John in my beliefs, as the Canadian client base has evolved to a North American marketplace mentality fairly rapidly and efficiently, to take advantage of opportunities afforded by certain fundamental change that I will address shortly, in my opinion, the behaviour of the investment dealer community, primarily the Canadian investment dealers, but including some international dealers, has not evolved to the same extent. As a result, the investment-dealer community in Canada cannot and does not yet provide an optimal, unbiased level of service that the world-class Canadian client base deserves. We must understand and accept that the Canadian client base, if not truly global in their approach to all strategic and capital-market activities, is certainly now much more North American oriented than strictly Canadian oriented. We as investment dealers and advisors must do a better job of co-operating and co-ordinating with each other to provide the highest quality of service for our clients.

I would like to review with you several significant factors that will explain and illustrate this inexorable trend over the last five years to a North American strategic and capital markets focus among Canadian companies.

The first important factor and, in my opinion, the factor most responsible for this trend, was the introduction of the Multi-Jurisdictional Disclosure System in August 1991. For those of you who are not familiar with the MJDS it is, in essence, a system agreed to between the OSC and the SEC which, cutting through it all, allows a Canadian issuer to use its Canadian disclosure documents to access the U.S. capital markets. Even though all of the Canadian dealers fiercely opposed the introduction of the MJDS, the regulators had the courage and foresight to see it through. In my opinion, they have not been given enough credit for introducing a system that has provided ease of access to the world's largest capital market and investor base which is, obviously, extremely beneficial to a constituency that we all seek to serve to the best of our abilities. It is a beautiful system that has achieved tremendous benefits for the Canadian client.

The second key factor in Canadian firms moving toward a North American market focus from a strictly Canadian focus was the rebirth of a high-yield market in 1991 in the U.S. This $300 billion market (a comparable market does not exist in Canada) caters to those companies that are or would be considered less than investment grade or rated below BBB by the major U.S. rating agencies. Since 75 per cent or more of Canadian companies would fall into this category the U.S. high-yield market has become a very important source of capital for these firms. We have certainly observed the many Canadian firms that have moved away from commercial bank financing and into the U.S. high-yield market. The prime example of the migration to the U.S. market, of course, has been the Rogers group of companies. Since 1991 the Rogers group has completed relevant issues in the U.S. high-yield markets for proceeds in excess of $4 billion. Rogers has become the number-one issuer of high-yield debt in the U.S. capital markets. Having been personally involved in all of the Rogers financing in the U.S. markets, I can tell you that Rogers' reputation among U.S. investors is so good and so strong that the market will be a continuing attractive market for Ted and his group of companies. Many other world-class Canadian firms have followed Ted's lead away from Canadian bank financing and into this market. In fact, from the first deal completed by a Canadian company (Rogers Cantel) in this market in November 1991, in calendar year 1995 just under U.S. $4 billion was raised by Canadian companies in this market. Over the last five years debt financing for the majority of Canadian companies has most definitely gone south of the border. This John is an example where we perhaps disagree to some extent. I believe that the Canadian investment-dealer community did watch, and continues to watch, a sizable chunk of corporate Canada reach beyond our borders without them.

The third key factor in the trend toward a North American focus among Canadian firms can be demonstrated by a quick examination of cross-border strategic or M&A activity involving Canadian companies and nothing illustrates this better than the numbers. In 1990, total M&A activity involving Canadians was just under $10 billion with approximately 50 per cent being cross-border. In 1995 over $16 billion of strategic initiatives were completed by Canadian companies with almost $10 billion being done cross-border. From 1990 to 1995 strictly Canadian activity increased marginally while cross-border strategic activity increased 100 per cent. Powerful numbers.

The fourth and last key factor that I want to address (because I am running out of time!) is what I call "the next frontier" and that is the equity frontier. I call this the "next frontier" because we have barely scratched the surface in bringing Canadian companies to the U.S. equity markets. Unlike the U.S. high-yield market that does not have a comparable market in Canada, there is a very viable equity market in Canada. While new equity issues completed in the U.S. by Canadian companies have increased from $54 million total proceeds or one per cent of total new issuance in 1990 to $2 billion or 18 per cent of total new issuance in 1995, we are still at abnormally low levels, primarily because of the Canadian dealers' persistence and insistence on a concept that for the equity markets is, or should be, dead—that concept being the "bought deal."

The "bought deal" does not fundamentally satisfy any corporation needs. It is not fundamentally good for issuers, investors or investment dealers. Surely we would all agree, and in fact it can clearly be demonstrated that a marketed deal achieves the broadest form of distribution and, most importantly, allows retail investors to participate in a meaningful manner. It also allows the issuer to tell its story more adequately to investors and provides the most efficient pricing process.

The "bought equity deal" is the only way some firms can compete for the equity business in Canada (and I do not include Mr. Hunkin's firm in this category as CIBC, Wood Gundy and a couple of other major firms have historically been fundamental leaders and believers in Canadian marketed deals for Canadian companies), but those that persist I believe show a fundamental lack of respect for the issuing and investment process.

There are world-class Canadian companies in world-class industries such as oil and gas, telecom, mining or forest products to name a few, who have world-class market values of several hundred million to billions and who currently have a stock price that is controlled by a handful of Canadians. I believe that these companies will follow the leads of companies like Hollinger, AEC, Petro Canada, Magna and others who have had huge success accessing the U.S. equity market in the appropriate manner.

To sum up, certainly there has been an inexorable move toward world-class Canadian companies, of which there are dozens and dozens, moving, if not to the global markets, certainly toward the North American markets.

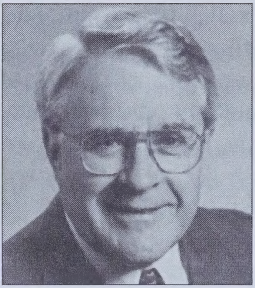
Again, cross-border debt issuance by Canadian has increased from $6 billion in 1990 to over $13 billion in 1995, including $4 billion from high yield from $0 in 1990.

Cross-border strategic activity by Canadians has increased from $5 billion in 1990 to $10 billion in 1995 and cross-border equity issuance (and next frontier) has increased from $54 million in 1990 to over $2 billion in 1995.

As I have demonstrated, in a relatively short period of time tremendous fundamental changes have taken place. The U.S. dealers are establishing major operations in Canada because of the U.S. market receptivity and potential for the Canadian client. In my opinion, Canadian dealers continue to be somewhat territorial and protective of their historical turf, most dramatically illustrated by the survival of the bought equity-deal concept. And in a world where strategic partnerships are being formed all over the world to meet changing client needs, whether it be Swiss Bank acquiring Warburg or Merrill acquiring Smith Newcourt or Deutsche Bank acquiring Morgan Grenfell, we are lagging somewhat in Canada relative to the changing needs of our client base.

Some progress has been made. We are partners in a major bridge fund with CIBC Wood Gundy in the U.S. and Goldman Sachs has convinced every Canadian dealer they have a special relationship but we have a way to go. John, while it is impolite to brag in front of a microphone, your awards for "best Canadian Securities Firm" by Euromoney two years running are richly deserved and a tribute to your leadership. But I believe that with proper co-operation and co-ordination "still to be defined" we, the Canadian and international dealer community can better and best serve from strategic and capital market perspectives the trend toward the "North Americanisation" of the Canadian client.

The appreciation of the meeting was expressed by John Sadler, Senior Vice-President, Newcourt Credit Group and a Director, The Empire Club of Canada.



October 15, 1996

A joint meeting of The Empire Club of Canada and The Canadian Club of Toronto

The Hon. John Savage

Premier of Nova Scotia

TWO CANADAS: THE DEVOLUTION DEBATE

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Jan Dymond, Vice-President, ZED Communications and a Director, The Empire Club of Canada; Lindsay Mount, OAC Student, Riverdale Collegiate Institute; The Rev. Bill Middleton, Minister, Armour Heights Presbyterian Church; Larry Stout, Broadcaster and a Director, The Empire Club of Canada; The Hon. Dianne Cunningham, Minister of Intergovernmental Affairs, Government of Ontario; Peter Godsoe, Chairman and CEO, The Bank of Nova Scotia; Mary Byers, Author, Historian and a Director, The Empire Club of Canada; Clifford J. Shirley, Associate Governor, Dalhousie University and former Vice-President, CIBC; Philip J. Olsson, Vice-Chairman, RBC Dominion Securities Inc.; and The Right Honourable John Turner, P.C., C.C., Q.C., Partner, Miller Thompson and Honorary Life Director, The Canadian Club of Toronto.

Introduction by Julie Hannaford

On October 10, 1996, The Empire Club of Canada launched its series on global banking. The focus of the mini-series is whether Canada and Canadian investment banks in particular can compete in a

North American and international market. Concurrently, The Canadian Club of Toronto, celebrating its 100th anniversary, has launched a series of addresses by Canadian prime ministers entitled "Canada in the 21st Century: Pride, Progress and Potential." This series will provide a retrospective and a perspective on the issues facing our nation, in the past and in the future.

It is therefore both timely and appropriate that our two clubs look at Canada from a further perspective, namely, an interprovincial and intraprovincial perspective.

In addressing our Club today on the Devolution Debate, Premier Savage offers just that perspective and insight.

It is also my pleasure to welcome Premier Savage back to The Empire Club. On December 2, 1993, Premier Savage addressed The Empire Club at the threshold of his office as Premier of Nova Scotia. In his address in December, 1993, Premier Savage outlined his plan for governance in the nineties. Premier Savage's address was frank, hard-hitting, and ambitious. It foreshadowed the reforms and initiatives which visited Canada and Ontario several years later. The Premier's plan for the province involved downsizing of bureaucracy, reform of health care, and in particular, pharmacare, economic development, and the positioning of Nova Scotia and the Maritime provinces, as equal players in a global playing field levelled by the private sector.

Having met and even bettered many of the goals which he set for himself and Nova Scotia, Premier Savage addresses our two Clubs, not only as a leader with ambitious goals, but also as a statesman, who has weathered the storms of dramatic change.

Perhaps the best explanation for Premier Savage's determination, success, and ability to weather those storms associated with dramatic change comes from his background. It is said in politics that there are those who live to serve, and those who serve only so that they may lead. It is rare to find a person who leads from a background of true dedication to service and thereafter leads from a perspective of that service. A tour of Premier Savage's biography explains the mettle from which Premier Savage has steered the province of Nova Scotia through the storms of the last three years.

As a family physician, Premier Savage served his community in Wales, and at the same time became involved in pre-marriage and marriage counselling course development. In Canada, he served at the Dartmouth Medical Centre and taught at Dalhousie Medical School. At the same time, he was a founding board member of Big Brothers and Sisters of Halifax/Dartmouth, as well as the Halifax Diocese Development and Peace Organization.

Travel for Premier Savage at least during the eighties, meant travel to places not usually listed in the vacation brochures. On two occasions during the eighties, Premier Savage travelled to Nicaragua, as part of a team delivering medical aid. He visited El Salvador for two weeks, as part of the Oxfam Canadian Mission for Peace. He has been involved in establishing community centres for treatment of alcoholism and drug dependency, has introduced programmes involving environmental initiatives in the third world, and led Nova Scotia in the development of funding for initiatives in literacy.

As a physician, Dr. Savage expanded the meaning of medical service to include a commitment to the community in which the physician serves the patient. As a politician, beginning with his election as Mayor of Dartmouth in 1985, he brought the concept of community service to the forefront, not only by means of the initiatives he promoted, but by serving as an example of the way in which activism benefits the community; as a premier, he has set goals and implemented initiatives by attacking those problems which those of lesser spirit might have allowed to go to the bottom of the agenda. He has done so, because he has been a true participant in getting things done.

In order for our market leaders to compete effectively in global markets, and in order for our leaders to steer Canada into the 21st century, we need a better sense of how we as provinces inter-relate and interact. Premier Savage's address today transcends the issue of the particularised issues between Quebec and the rest of the country, and deals with the more uneasy issues involving the provinces that have, and those that do not. This is not an easy topic to address. There is no person better qualified however to address this uneasy issue.

Ladies and gentlemen, please join me in welcoming to The Empire Club of Canada and The Canadian Club of Toronto, The Honourable John Savage, Premier of Nova Scotia.

John Savage

News addicts and television watchers here may recall seeing Rex Murphy's foray into the Canadian identity jungle last month. Ponderously titled, "Searching for a Sense of Country," it was one of those earnest probes into our national psyche. The intrepid Rex emerged from the tangled brush with such a grab bag of ideas, comments, and opinions that even he had difficulty bundling the unruly lot into an intelligible conclusion.

Rex was left asking himself, “Is the chase worth the quarry?” and responding, “there is a core here of attitude, temperament, a special mix of history and experience—even in our clumsy and sometimes reckless politics—that is finally recognisably our own and worth keeping.”

Frankly, I don’t think Canada is nearly as impenetrable as the media and other national hand-wringers maintain. As with most nations, our identity is entwined with our sense of family. Canada, after all, is a family.

To be asked what it means to be part of that national ménage is not much different from being asked what it is to be a Jones, a Murphy or a Savage. These questions are fundamentally unanswerable although, if pressed, we resort to the same well-worn and inadequate touchstones—membership by birth or adoption, traits and heritage different from the neighbours, geographic location, socio-economic standing, and expectations.

And that brings me to my theme, Two Canadas: the Devolution Debate. What I have in mind here are not the uneasy relations between Quebec and the rest of the country, or even the contentious issues that beset aboriginal-non native dealings. I’m referring to the Canada that has and the Canada that has not.

I’m convinced if we ignore these two Canadas today, we do so at our peril. Further, I believe fairness is the only acceptable way to deal with this family situation. Otherwise we risk turning it into one of those latent dysfunctions that will eventually cause disquiet.

You’ll recall we heard a great deal about this topic in the 60s and 70s under the heading “economic disparity.” As transfer payments and policies to encourage regional economic development took root, the phrase faded from prominence in our national political lexicon. With its retreat seems to have gone a certain appreciation of its dynamic, at least as far as the have-provinces—Ontario, Alberta and British Columbia—are concerned.

That realisation has grown with increasing regularity in the current discussions on the devolution of some federal activities and programmes to the provinces. I'm talking here about federal involvement in matters of exclusive provincial jurisdiction, as outlined in our constitution—matters related to health care, education and social welfare responsibilities.

Most recently, the Two Canadas asserted themselves in August at the First Ministers' Meeting when, as Newfoundland Premier Brian Tobin so succinctly put it, "Courchene was thrown from the train."

While not on the official agenda, Professor Thomas Courchene's controversial paper on re-balancing federal-provincial social responsibilities gave us a defining moment. For the first time Nova Scotia and five other have-not provinces voiced a resounding and harmonious "no" to the Courchene scenario in which Ottawa would completely get out of social programmes like health care and turn its cash transfers into equalised tax points for the provinces.

The fact that Have-Canada, particularly Ontario and Alberta, would even bring Courchene's provocative paper along as a non-agenda item is troubling. It suggests the richer members of our Canadian family are out of touch with their poorer relations; that Ontario and Alberta don't fully appreciate the implications of what Courchene is suggesting, and that perhaps Nova Scotia has been remiss in not providing more enlightenment on the subject.

The plain truth is Nova Scotia can't afford to let Ottawa vacate the social welfare field because, on its own, our province doesn't have the money to bankroll a takeover. Ontario, Alberta and British Columbia do. Consequently we still see a role for the federal government in developing national standards, provided they are achieved in consensus with the provinces. From past experience we know how unilateral action by the federal government in these matters can undermine provincial priorities by diverting our comparatively modest resources from our objectives.

It should be remembered that if every have-not province paid full fare for its social programmes, this country's existing disparities would be greatly magnified. The result—more discord, bickering and resentment—would undermine our need for greater co-operation, so vital today for our national well-being. As our east-west economic links slacken to take advantage of the continental north-south pull, it's generally agreed we must maintain social bonds, like medicare, which Canadians recognise as national family traits—as entitlements of citizenship and unifying features of this country.

But this shouldn't mean Canadians in richer provinces should have substantially better social programmes than those in poorer provinces—unless of course you want two classes of citizenship in this country. I'm certain Canadians won't buy that. And if they did Have-Canada, let me tell you, would end up regretting it. Imagine the strain on Ontario's financial resources if Canadians from provinces like Nova Scotia started flocking here for better medicare or enriched social services!

You'll recall British Columbia caught a preview of that nightmare not long ago, when Albertans on pared-down social assistance headed to the West Coast where the benefits were more generous. The result wasn't pretty—for either province. Population migrations of this kind upset the economic balance. People should move to take advantage of jobs and economic opportunity, not social benefits. That only stands to reason because we need tax revenue from jobs and economic activity to sustain social programmes.

Disparity, as we all know, already exists between Ontario and Nova Scotia. Last year your annual average unemployment rate was less than nine per cent, ours was slightly over 12 per cent. Weekly average earnings last year were estimated to be 25 per cent higher in Ontario than Nova Scotia. Annual personal disposable income for Ontario residents exceeded the Nova Scotian figure by more than $3,000.

As a result our social programmes in Nova Scotia aren't exactly like yours here in Ontario. They aren't as rich. But they're comparable and equitable. We've been able to keep them that way because of a system of federal equalisation payments which have been coupled with cash transfers for social programmes, containing in-built equalisation factors.

Ontario argues these equalisation factors should be scrapped from our social programmes and integrated into the formula for equalisation payments. We can't go along with that idea; we'd be financial losers in the formula's renegotiation and we know it. Courchene's scenario, turning cash transfers into equalised tax points, falls far short of the mark too. Our social programmes would suffer. They couldn't be sustained in an equitable way with Ontario's, Alberta's or British Columbia's programmes.

Further, Ontario is captivated by the notion that it should get 100 cents back in benefits for every dollar it puts into the kitty for national social programmes. If we adopt that kind of attitude, we won't have to worry about the consequences of a Canada without Quebec; we'll already be on the way to disintegration. Moreover the idea just doesn't make sense from the standpoints of functionality or fairness. Consider how the principle would work in employment insurance! Nova Scotia, where unemployment is high, would collect disproportionately smaller benefits compared to provinces where unemployment was low. Let me put it to you this way: if you were living in a sparsely populated hurricane belt, would you be satisfied if your insurance agent offered you hurricane insurance with benefits tied only to the premiums collected in your immediate area? Of course not!

We understand Ontario's frustration at seeing money go out of the province at a time when it could use the dollars at home. But Ontario is part of a national family in which the members have a long-standing tradition of taking care of one another in the name of the common good.

Some fallacies, unstated but widely assumed, can get in the way of a proper debate on this subject. Among these misconceptions are the notions that Nova Scotia doesn't pull its financial weight in the Canadian family; that we aren't much of a factor in the central Canadian economy; and that continued help from Have-Canada will merely perpetuate our dependence.

These ideas are simply false! We are pulling our financial weight. Federal taxes collected in Nova Scotia as a proportion of personal income were the highest in Canada in 1993. We are much less dependent on federal spending that we once were. Federal expenditures on goods and services in Nova Scotia experienced the fastest decline in all of Canada from 1980 to 1994. At the same time federal revenues from our province have soared.

In 1980 net expenditure—that is all the money Ottawa sent to Nova Scotia minus all the money we sent back—was 41 per cent of Nova Scotia's gross domestic product or GDP. Then, because we began to get less and send more to Ottawa, the next expenditure figure dropped to just under 19 per cent in 1994. That's more than a 50 per cent drop in this dependence measurement in less than a decade and a half. This data, of course, doesn't reflect the substantial hits we took in the 1995 and 1996 federal budgets. Those factors are expected to send this measurement of dependence plummeting even further.

It isn't true either to say we aren't economically important to central Canada. It may interest you to know, that Statistics Canada recently released an analysis of interprovincial trade which, while based on 1990 data, revealed some intriguing trade patterns. Nova Scotia's interprovincial imports were worth $6.5 billion, nearly twice as much as our exports.

Slightly over half the value of those imports came from Ontario. Quebec was next in line at 24 per cent and the Atlantic region stood third at 18 per cent. By comparison, 42 per cent of our exports stayed in Atlantic Canada with the remainder split closely between Ontario and Quebec. We're an important market to central Canada. Our biggest import item was automobiles. Now tell me that isn't important to the Ontario economy!

Nor is it correct to suggest help from Have-Canada is merely perpetuating a syndrome of dependence. Our province lost close to 5,000 federal jobs in the last five years, far more in percentage terms than any other part of the country. In fact 16 per cent of all federal cuts in Canada since 1990 have been absorbed by Nova Scotia. We estimate that the cumulative effect of federal cuts to Nova Scotia will top $2.5 billion by the turn of the century. The burden of picking up the slack has fallen to our private sector and it has risen to the challenge. A good example is this past August when the public sector was found with 8,000 fewer jobs compared to the same month last year. While public-sector employment fell, private-sector employment was up by 6,000.

As a provincial government we've been responsible. We've aggressively slashed our spending to cope with a deficit which, at more than a half a billion dollars a year, was out of control when we came to power in 1993. We balanced our operating budget this year—12 months sooner than we originally anticipated. We've brought in legislation to outlaw deficits in future years and we've targeted our net direct debt for demolition. Suffice it to say if we could get rid of our net direct debt, now an estimated $8.43 billion, we'd be a self-sufficient province. We're working on it!

Beyond that, we're doing what we can to help our private sector expand and generate economic activity. And there are signs our strategy is working. As of January this year we had the lowest unemployment rate and the highest job growth in Atlantic Canada. In July only five major centres in Canada had a lower unemployment rate than Halifax.

More encouraging, our economic future holds signs of new wealth. If current plans come to fruition about 30 per cent of Canada's oil and gas production will come from the east coast within the next five years. I'm thinking of the combined effect of Hibernia and Terra Nova off Newfoundland and Sable gas off Nova Scotia. These projects represent a big potential plus not only for the Atlantic region, but for our national economy. Canada could expect to realise more income from energy exports and experience less reliance on imported fuel.

The Sable gas project has a value of at least $3 billion. The consortium developing the project, led by Mobil Oil, will make a final decision on the project about a year from now. A joint federal-provincial review panel is up and running and has started the public-hearing process. My government obviously has a great deal of interest in the project. We have made it very clear that Nova Scotians must receive maximum benefits from our offshore resource or the gas will stay in the ground.

While we wait for the Sable consortium to give the final go-ahead to the project, there is controversy over two competing proposals for the pipeline which will carry the gas to markets in the United States. One group wants to ship the gas directly to the United States through Nova Scotia and New Brunswick. The other proposal would see the gas go through Quebec before heading south of the border.

Unfortunately, the routing of the pipeline has become a political issue because of the Quebec government's interest in the project. I have said repeatedly the decision is best left up to the National Energy Board. Ottawa now agrees. But that's where the debate should stop. I would argue that it is inappropriate for any one in the federal government to comment further—to argue the merits or demerits of either pipeline proposal. Let's let the regulatory agency do its work and keep us politicians away.

I reiterate, Nova Scotians must receive maximum benefits from our off-shore resource in terms of jobs. We anticipate that the Sable offshore project will play a significant part in our desire to reach greater economic independence. In the meantime, we remain vigilant in our efforts to ensure that any changes to existing federal-provincial fiscal arrangements don't penalise any one part of the country.

Ontario, with a government centred in one of Canada's richest cities, doesn't argue about the principle or the need to equalise services in the province's less affluent north. The Ontario government strives to make its services as uniform and accessible as it can for all provincial residents. Federal transfer payments simply allow Ottawa to perform that same function on a nation-wide basis.

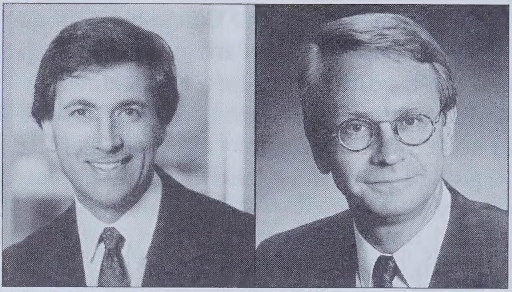
In all these matters, I am again reminded of Rex Murphy's exploration of our Canadian identity. One of the people he talked to was Harry Hayward, a volunteer with the Brandon War Museum. He was quite critical of Canadians and said, "I think we've become very self-centred and selfish, since probably the 60s. It's me, me, me—and we're not worried about anybody. I'm not worried about you; I'm worried about me."

Well that's how it can appear at times, because we all come to the family table as individuals with our own pressing concerns. Only through the give and take of discussion do we begin to perceive the family welfare as greater than our own.

Mr. Hayward seemed to sense this. He said, "I think we're a great country. We have a great history. We've done a lot of difficult jobs together." Mr. Hayward remains concerned about our future but he says, "I'm a typical Canadian. Ah well, I guess it'll get sorted out somehow."

Such blind faith is characteristic of Canadians. It's an indication that our national family ties are more real, deep and abiding than we care to admit—even to television personalities. And it's in this spirit that I too believe we'll get these issues sorted out. Moreover I'm convinced the outcome will be guided by mutual goodwill and fairness. It's the Canadian way.

The appreciation of the meeting was expressed by The Right Honourable John Turner, P.C., C.C., Q.C., Partner, Miller Thompson and Honorary Life Director, The Canadian Club of Toronto.



October 17, 1996

Robert Grandy

Chairman, Merrill Lynch Canada

WHOSE MARKET IS THIS ANYWAY?

Philip Olsson

Vice Chairman, RBC Dominion Securities

GLOBAL FINANCE: ARE CANADIANS UP TO IT?

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Alex Squires, Security Analyst, Brenark Securities Ltd. and a Director, The Empire Club of Canada; Stacey Arjoonlal, OAC Student, West Toronto Collegiate; The Rev. Canon John Erb, Rector, St. Michael and All Angels Church; Gerald Segal, Vice-President, Investment Banking, Merrill Lynch Canada; Joseph Oliver, President, Investment Dealers Association of Canada; Kiki Delaney, President, Delaney Capital Investment Management; Anne Libby, Co-owner, Libby's of Toronto Art Gallery and a Director, The Empire Club of

Canada; Gerry Phillips, MPP, Scarboro/Agincourt and Liberal Finance Critic; and James Kinnear, President, Pengrowth Gas.

Introduction by Julie Hannaford

Last week, John Hunkin from CIBC Wood Gundy and Rob Gemmell from Salomon Brothers addressed the question of whether Canadian banks will survive in a global arena, and thus opened The Empire Club of Canada's mini-series which is titled "Banking on Change." In doing so, Messrs. Hunkin and Gemmell joined the distinguished list of speakers who have addressed The Empire Club of Canada over the last 93 years. As each new season of The Empire Club begins, we plan our speaking agenda around those issues which profoundly affect and change the lives of most Canadians. If there is one theme that has united the speakers from this season (beginning in May, 1996), it is that none of us operate in anything but a global marketplace. Beginning with Chancellor Helmut Schmidt, who addressed the issue of Germany at the millennium and did so from the perspective of a larger economic union that would deeply change the way in which we understand and interact with Europe to Bill Gates, who graphically (and I mean that literally) illustrated how we must become educated consumers of the Internet and micro-technology, or end up being consumed by it, our speakers have served to insist that we look outward beyond our national borders, not as a matter of competition but rather as a question of survival.

By international standards, our domestic banks are small, and until recently, lived in a world protected from the global marketplace.

It was particularly telling, then, that John Hunkin re-focussed the question of whether Canadian banks would survive in a global arena to how many of our Canadian banks will equip themselves adequately to compete in the global marketplace.

Rob Gemmell, from Salomon Brothers, effectively told us that we had no choice but to do so, and by and large, the investment dealer community and primarily Canadian investment dealers are not yet there.

From 1990 to 1995, M&A activity involving Canadians grew from $10 billion to $16 billion, and new equity issues completed in the United States by Canadian companies increased from $54 million in total proceeds to $2 billion in 1995.

If there is a moral that came from the October 10 addresses, (and this is not a segue into jokes about investment bankers, money, and morality), that moral might well be that if we as Canadians do not equip ourselves to compete in the global marketplace, we shall not just end up as its servants, but shall sit back and watch as our clients choose to be served in a market where the Canadian banker and dealer is simply no longer relevant.

Having now been provided with the background, I am particularly grateful to our speakers today for addressing the difficult questions that arise from the background we have been given. In particular, I am grateful to our speaker Philip Olsson, who suggested that the questions we need to address are fundamentally, with respect to the issue of global banking, "Whose market is this anyway?" and on the issue of global finance, "Are Canadians really up to it?"

I am also grateful that Robert Grandy agreed that those questions were the critical ones and both of our speakers have undertaken to answer those questions directly.

Robert Grandy was educated in law at the University of Toronto and in business at Harvard. He began his business career at Wood Gundy, and became Senior Vice-President and Director of Merrill Lynch Canada in Calgary in 1985. In 1988, Mr. Grandy became head of Investment Banking in Toronto, and in 1990, became Chairman of Merrill Lynch Canada.

Philip Olsson, became the Vice-Chairman of RBC Dominion Securities in 1995, and prior to that he was responsible for the worldwide investment banking operations of RBC Dominion Securities. Mr. Olsson received his MBA from Vanderbilt University and engaged in post-graduate research at the London School of Economics. He began his investment banking career in 1979, when he joined the Toronto Corporate Finance Department of RBC Dominion Securities' predecessor, Pitfield MacKay Ross Limited.

Both Mr. Grandy and Mr. Olsson promised to continue the provocative and important issues raised by our speakers last week.

Robert Grandy

The most important capital markets development of the 1990s is the trend for Canadian issuers to raise more and more of their financing outside Canada, particularly in the U.S.

This is of great significance for the major Canadian investment banks and their bank owners because it will necessitate the making of important structural changes in the way they do business if they are to remain successful in the face of this trend.

Before discussing the type of structural change that will be required, it would be appropriate to review, in some detail, the changes which have been taking place in the Canadian market and the reasons behind them.

Perhaps the most interesting way to review the changes is to consider the following list of the top 10 investment banks responsible for raising financing for Canadian issuers during the 1990s until August 31, 1996.

	(in billions)
RBC DS	$58.6
Merrill Lynch	$54.8
ScotiaMcLeod	$51.4
Goldman Sachs	$47.5
CIBC Wood Gundy	$46.3
Salomon Brothers	$23.7
CS First Boston	$23.5
Nesbitt Burns	$13.8
UBS	$11.5
Burns Fry	$9.5

Note that five of the top 10 are foreign investment banks with two of the top four being from the U.S.

The trend towards greater use of U.S. and other international investment banks has increased over time. In 1995, six of the top 10 were foreign with Merrill Lynch holding the top spot, Goldman Sachs number two, CS First Boston number seven, Deutsche Morgan Grenfell number eight, Yamaichi number nine and Lehman Brothers number 10. So far in 1996, six of the top 10 are foreign.

In total, by 1995, less than 50 per cent of all capital-market needs for Canadians was raised in Canada. In that year, 46 per cent was raised in Canada, 39 per cent in the U.S. and 15 per cent elsewhere. This can be contrasted with 1990, when 67 per cent was raised in Canada, 23 per cent in the U.S. and 10 per cent elsewhere.

Most of this change has come in the debt markets, with Canadian government entities raising the preponderance of their financing outside Canada.

In corporate debt markets as well, there has been a massive shift with Canadian corporations now raising 60 per cent more of their debt needs in the U.S. than in Canada. In 1995, Canadian corporations raised 52 per cent of their total needs in the U.S. and only 32 per cent in Canada, with 16 per cent being raised elsewhere. In 1990, 76 per cent was raised in Canada, 20 per cent in the U.S. and four per cent elsewhere.

The shift into the U.S. market for common-stock financing has been slower, primarily because of the marked preference of Canadian issuers for utilising the bought-deal format. However, now that Canadian companies have reduced the high degree of leverage that they put in place in the 1980s, there is a growing trend toward using a traditional marketed deal, instead of the more costly bought deal. Arguably, the principal reason for this is that Canadian issuers are seeking an approach which will enable them to obtain access to the large universe of potential shareholders in the U.S. market.

In 1996, year-to-date, 48 per cent of all common stock issues for Canadians was done by way of marketed deals with 15 per cent of total financing being raised in the U.S. In 1990, only two per cent was raised in the U.S. Clearly, there has been an increasing shift towards the U.S. market. The key question then is whether this shift will continue. The answer lies in the reasons behind the shift which can be put forward as follows.

The establishment of the multi-jurisdictional disclosure system in 1990 made it just as easy for most Canadian issuers to use the U.S. market as the Canadian market. In fact, strangely enough, most Canadians have easier access to U.S. markets than U.S. issuers because MJDS issuers do not face the possibility of SEC review of their prospectus.

Price and demand for securities can be maximised by tapping the large universe of potential U.S. buyers. It is difficult to argue against the premise that share and bond prices will be better supported by having greater, rather than fewer, numbers of buyers.

A number of product markets have, for all intents and purposes, not been available in Canada. The most notable of these has been the high-yield debt or junk market for credits rated BB or less by the credit-rating agencies.

There is a growing natural requirement for non-Canadian dollar financing by Canadian institutions. This has been fostered by a number of developments such as free trade, increased cross border mergers and acquisitions activity and the growth of Canada's exports business that has come with a lower Canadian dollar.

In many industries, in Canada, there is an insufficient number of issuers to warrant the maintenance of industry research analysts at either the investment banks or the institutional buyers. To attract industry-specific expertise of this type it often becomes a necessity to go to the U.S. market.

The depth of the U.S. market is such that it can support a breadth of products for which there would simply be too little liquidity in the Canadian market. Some recent examples of these types of products are TOPrS (debt instruments with certain preferred share characteristics); LYONs (zero coupon convertibles); PRIDES (mandatory convertibles); and step-up convertible debentures.

This list of reasons is compelling and it is difficult to see any factor within this list that would indicate any diminution in the trend towards even greater use of the U.S. markets.

The question then is whether Canadians will use Canadian investment banks or U.S. investment banks to obtain access to the U.S. market. Arguably, the answer to this question is very simple. Canadian issuers will use the Canadian investment banks to complete financing in the

Canadian market because those investment banks know the market best and have the best distribution capability in it. By the same token, Canadian issuers will use the U.S. investment banks to complete financing in the U.S. market because those banks know that market best and have the best distribution capability in it. After all, you don't call a plumber when you need an electrician.

In the end, if Canadian issuers are going to continue to increase their use of the U.S. market, and if they are going to use the U.S. investment banks to lead their issues in that market, there seems to be only one legitimate approach for the Canadian investment banks to obtain future growth. They are going to have to combine their operations with those of the large U.S. investment banks by way of joint venture or merger. Only in this way can they protect their position in the home market and grow as major players in the global market.

Philip J. Olsson

Today's question is: "Global Finance—Are Canadians Up to It?" My answer is, "Yes!" We are up to it. We excel at it. In fact, Canada's financial sector is one of the new economy's great success stories.

Today I will tell you about Canada's competitive advantages in global finance. I will tell you how we exploit those advantages. Finally, I will ask you to join with me in seeking public policies that will allow us to create even more jobs and economic opportunity for Canadians.

Living as close to Wall Street as we do—and having people like Rob Grandy around to remind us—sometimes means that we Canadians underestimate our own strength. So let's start with a review of our competitive advantages in global finance.

The first is so obvious that we in this room usually overlook it: Canada has joined the hard-money club. Our low inflation, our skyrocketing exports and our governments' work to restore fiscal health have made our dollar welcome once again in world capital markets. We at RBC Dominion Securities believe that in 1997 Canada will begin to outgrow all other G7 economies. Investors abroad increasingly agree. In turn, the soundness of our dollar and our image of fiscal rectitude greatly enhance the reputation of our financial institutions. This is of great value as we compete internationally in what may be the most competitive industry in the world. If you ever doubt that a sound dollar is important to our financial industry's success, think about Switzerland. Think about the enormous prestige and competitive power that has accrued to the Swiss banks because of that small, landlocked country's refusal to degrade its currency.

Our dollar is sound, and our financial institutions are sound. This is our second great competitive advantage: investors everywhere know they can deal with Canada's banks in confidence, because Canada has simply not tolerated any weakening of its financial institutions. Moody's Investor Services recently introduced its Bank Financial Strength Ratings and reports that Canada's average BFSR ratings are exceeded by only two countries. The high credit ratings of the Canadian banks make them very popular counterparties. This puts us at the centre of the enormous global trade in foreign exchange, swaps and other credit-related instruments. We use this competitive advantage to create jobs and growth in Canada.

A third competitive strength of Canada's financial sector is the global scale and presence of many Canadian companies. This is most apparent in the resource industries—especially mining and oil and gas, in telecommunications and the technologies which support it and in energy transmission and distribution—and, I almost forgot, Canada's financial institutions. Around the globe, but especially in the emerging economies of Asia and Latin America, globalising Canadian companies such as NOVA, Barrick, ATCO, TransCanada PipeLines, Newbridge and Northern Telecom enjoy name recognition that would astonish many of you. The presence of these companies in Canada and their importance to investors here and abroad has allowed our investment and commercial banks to build a research, trading and financing infrastructure far beyond what one might expect to find in a country of our size.

A fourth competitive strength we enjoy is found on main street as well as Bay Street. We are a multicultural society with a global outlook. We Canadians have a strong sense of whom we are, yet we are woven from strands drawn from many places and traditions—and in most of those traditions the value of enterprise and trade is a core belief. This is an enormous competitive advantage in an industry such as finance which spans all time zones and cultures. Day by day the barriers to free trade in finance are lowered, and the rewards go to those who are the fastest, the most creative, the most industrious and the most able to communicate across cultures. Every day the global financial marketplace tilts somewhat more in Canada's favour, because of whom we are as people.

A fifth competitive advantage flows out of the Canadian propensity to save. Our prudence has created enormous pools of capital in this country. This has created large, liquid markets for both debt and equity securities. This builds a base of expertise and capital strength which allows us to compete very effectively internationally. A particularly striking illustration of this is our willingness to assume bought-deal liabilities in equity transactions at commissions typically lower than those charged in other markets for premarketed transactions.

There are five competitive advantages we can use to compete in global capital markets:

- a sound dollar;
- a sound financial system;
- world-scale industries;
- a multicultural, outward-looking society; and

- large, liquid security markets.

So what are we doing with these advantages? Let me tell you three Canadian success stories, two of them drawn shamelessly from my own organisation.

Let's start with life insurance. What could be more Canadian than our life insurers, built on the bedrock Canadian virtues of savings and trust? Sir John A. Macdonald was probably thinking something like that when he founded Manulife Financial in 1887. But the success of Manulife and other Canadian life insurers extends far beyond our borders. In particular, they have been very successful in meeting the needs of the growing middle class in the high-growth economies of East Asia. Manulife's Asia Pacific operations extend throughout the region and accounted for 13 per cent of the company's total premium income in 1995. The company reports that the total number of its policies in Hong Kong, for example, has increased 80 per cent in the past four years. The success of Canada's life insurers in Asia seems almost inevitable when you think of some of the competitive advantages I listed earlier: a reputation for sound money and sound institutions, a multicultural and globally-thinking talent pool, and large pools of domestic savings which have allowed us to build a world-scale industry.

Now let's take a look at the ultimate global market, the world of foreign exchange. This business dwarfs all other capital flows. Global foreign exchange turnover averages $1.7 trillion per day. The Canada-U.S. dollar trade is the largest bilateral flow in this market, and some of the Canadian banks have used this base of business to build very large global businesses.

I'll use the Royal Bank as an example, because on November 1 we consolidate all of the trading businesses of the Royal Bank Financial Group into RBC DS Global Markets, a unit of RBC Dominion Securities. Our foreign-exchange trading operation accounts for 1.7 per cent of global foreign exchange turnover, a large part of it generated in our trading room 500 feet away from here in Royal Bank Plaza. Our foreign exchange business has ranked in the top 20 worldwide in each of the past 15 years. Third-party surveys rank us number one in Canada and number five in the United States.

Again, we draw on the competitive advantages of operating from a Canadian base: a sound dollar, very creditworthy banks and a talent pool drawn from many cultural and linguistic traditions.

Thirdly, an example from my own firm, RBC Dominion Securities. For many years we and several of our predecessor firms have worked to keep up with the financing and advisory needs of our clients in the mining industry. As our Canadian clients have grown to dominate many aspects of the global mining industry, especially gold mining, we and other Canadian investment banking firms have turned the Canadian stock exchanges into the financial centre of the mining businesses worldwide. By far the largest volume of mining-share trading in the world takes place on the Toronto Stock Exchange and we believe that over half of the mining equity analysts in the world reside in Toronto. Mining firms whose principal operations are in Africa, Australia, South America and Europe seek to domicile themselves in Canada to take advantage of these highly liquid markets.

A current example is Philex Gold, a Philippine gold mining company which is in the process of being privatised through a global offering. I can't say a lot more because the issue is in registration. I can tell you that we, a Canadian investment dealer, are leading this offering because we have built a global mining business using the competitive advantages we find in Canada. In Toronto we have four gold analysts focused on North America, Australia and Africa. To add to this capability we acquired a mining team in London, which brought 10 dedicated sales, trading and research professionals. This in turn led us to acquire an interest in SMK Securities of

Johannesburg, which further broadened our African and South-East Asian sales and trading capability.

So we are another example of a financial enterprise which competes globally from Toronto. The vigour and global scale of our mining companies have drawn the world to Canada.

That's the story. Canada has unique competitive advantages in the global financial arena, and our financial institutions are using them to bring highly skilled jobs and capital to Canada.

Are there some things we should be doing to keep our advantages? Here are three suggestions:

First, we should encourage our government to keep on doing the right things. We have made much progress toward full fiscal health, but we're not finished. The appreciation of Canada as a hard-currency country has greatly enhanced our ability to compete in the global financial industry. We must maintain this edge.

Second, we must preserve the soundness of our financial system. Canadians love to criticise their banks. They're big and sometimes seem a bit impersonal like all large organisations. But never forget that in 100 years we have built a financial system that is sounder than just about anyone else's. Let us judge all proposals first by their effect on the creditworthiness of our institutions, and only secondarily by their social or political utility. Our international competitiveness and the jobs of thousands of Canadians depends on maintaining this balance.

Thirdly, we really need a national securities commission. It is true that our industry has adapted to our province-by-province system, but the cost has been that no one speaks for Canada. In a globalising economy, this means we are at serious risk from competitors in other nations which are able to identify and advance their national interests. Unfortunately, the effort to establish a national securities commission has been sidetracked by issues that, frankly, have little to do with securities regulation or the national interest. In particular, I hope you will join me in urging our elected officials to maintain their focus on this very important matter.

In conclusion, to the question, "Global Finance—Are Canadians Up To It?" I answer "Yes!"

Thank you.

The appreciation of the meeting was expressed by Alex Squires, Security Analyst, Brenark Securities Ltd. and a Director, The Empire Club of Canada.

October 24, 1996

Andrew Fraser

Chief Executive, Invest In Britain Bureau

INVESTMENT IN BRITAIN

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Jeremy Burman, Grade 11 Student, Northern Secondary School; Mrs. Millie Hope, Pastoral Assistant, St. Timothy's Church, Agincourt; Peter Held, CEO, BDO Dunwoody; Peter Davies, British Consul General; Robert Dechert, Partner, Gowling, Strathy & Henderson and President, The British Canadian Chamber of Trade and Commerce; William Whittaker, Partner, Lette Whittaker and an Honorary Director, The Empire Club of Canada; Sheila Ramsay, Area Director, Western Europe, Ontario International Trade Corporation; and Anthony Goodenough, British High Commissioner.

Introduction by Julie Hannaford

As one of North America's only speaking clubs of record, The Empire Club of Canada preserves and maintains a history of its recorded addresses, not only to document the insights, commentaries, and perspectives of leaders in our business and political community on issues of the day, but also to maintain a record of that which captures our imagination and concern from time to time during the year.

Today, Thursday, October 24, 1996, our meeting focuses on investment, and as such, it is particularly timely, that our guest addresses us today on investment in Britain, just after our forum on global banking.

As a generation nurtured (and some would say entirely created) by marketing, it would appear at times that our perception of "global" is actually more restricted than inclusive. As early as 10 years ago, the concept of foreign investment was restricted to investment in the European Community. Today, the concept of foreign investment reaches much further. In broadening that reach, we tend to eclipse that which in fact is closest to us, politically, historically, and economically, namely Great Britain.

Our guest today, Mr. Andrew Fraser, has very kindly agreed to provide us with that perspective, and thus equalise or balance our understanding of global business.

Mr. Fraser was appointed Chief Executive of the Invest in Britain Bureau by Michael Heseltine, the President of the Trade, in July, 1994.

Before taking on this position, Mr. Fraser was the Managing Director of cdp europe, the core advertising network in Europe for Dentsu, and before that, he was the Executive Vice-President and Director of Business Development for Saatchi & Saatchi Advertising worldwide.

Born in Kuala Lumpur, Mr. Fraser was educated in the United Kingdom, graduating from the University of Sussex School of English and American Studies. He pursued scholarship programmes at Harvard and UCLA, and joined Young & Rubicam in London in 1972 where he became an Account Director for clients such as Procter & Gamble, Heinz, and Cadbury Schweppes.

Mr. Fraser became Managing Director of McCann Erickson in Thailand in 1976, working with international and domestic clients including Coca-Cola, Phillips, Nestle, Gillette, the Thai Farmers Bank and the Thai Tourism Authority.

When he returned to the United Kingdom in 1980, he joined Saatchi & Saatchi, and worked in New York, London, and Hong Kong, and as indicated previously, Mr. Fraser became responsible for the management of international clients and the development of new business worldwide.

Mr. Fraser brings a truly international perspective to his address today.

There is no question that everyone of us is occupied and pre-occupied perhaps with the day of protest which is to occur tomorrow. The news this morning was dominated by reports of those things which we could not do, and those people who were travelling to work, armed with sleeping bags, overnight essentials, and visions of sleeping on trading floors. For those of you who are here today, who plan to sojourn in the downtown area for the next 72 hours, our guest today provides you with an opportunity to look beyond Toronto, beyond Ontario, and beyond our Canadian borders, to the horizon for business in Britain.

Please welcome to The Empire Club of Canada today, Mr. Andrew Fraser.

Andrew Fraser

I am delighted to have the opportunity today to address this distinguished audience. I would understand The Empire Club has a 90-year history promoting serious discussions related to Canada and the Commonwealth. The British Canadian Chamber of Trade and Commerce too plays an important role in promoting trade and investment links between Canada and Britain.

The strength of the historical, institutional and commercial ties between Canada and the U.K., which both of your organisations have helped to promote, provide a foundation for the high levels of industrial investment in both directions. But the attractions of the U.K. as a base for Canadian companies in Europe—and of Canada as a base for British companies in North America—are not limited to historical ties or sentiment. The importance of inward investment in the bilateral trading relationship between the U.K. and Canada and in each country's economic development is growing fast.

I want to explain what this means to Britain and why the U.K. has been so successful in attracting and retaining foreign investment, including from North America, in recent years.

I always feel comfortable in Canada. It is much like home—even though we only tend to do business in just one language, rather than two as you do here.

From our side of the Atlantic we tend to think Canada's economy has a north-south emphasis—that you are part of a great North American market moving increasingly towards free trade through NAFTA. But one of the great traditions of Canada is that you also look west to east. If I were to fly the equivalent of a journey between Vancouver and St. John's eastwards from London, I would actually find myself in Siberia. That is quite a thought for us. Looking east from Canada brings you direct to Britain and the rest of Europe. That's our starting point.

Canadians may be surprised by the sheer scale and opportunities of the European market. These have to be considered, even from as far away as your West Coast. Everyone tends to look to Asia these days for economic development and growth but boring old Europe is actually a very interesting place to do business. When we grow at three per cent a year—as we have been doing—that adds an economy the size of Taiwan in GDP terms. The scale of the European Economic Area is sometimes underestimated. In a land mass smaller than Canada we have over 380 million pretty affluent consumers, not to mention new markets opening up to the east of us that quickly bring our total market up to something like 600 million. The European Union alone is larger than NAFTA would be even if it were a single market, and more than three times the size of Japan.

It is not just population size, either. Europe is also the access point for much of the world's state-of-the-art technology. But it is Britain that is Europe's competitive base. The evidence in investment terms speaks for itself—45 per cent of all the Canadian investment in Europe is in the U.K., no fewer than 250 companies. That compares with 14 per cent in the Irish Republic, eight per cent in Germany, six per cent in France and five per cent in the Netherlands. It's not just the Commonwealth connection either. We also have nearly 40 per cent of all the U.S. investment—4500 companies from there. We have more than 40 per cent of the Japanese investment too and even bigger shares from some of the other Asian tigers.

What's more our European partners have also been deciding that Britain is the best place to do business.

Investment flows between Britain and Germany used to be fairly even. They have been running 10 to one in our favour over the past couple of years. Over 50 German companies came to Britain in the last year and well over 100 from the rest of the EU. Overseas companies account for 40 per cent of our exports and 18 per cent of our manufacturing jobs. And 90 per cent of those investors export worldwide from their U.K. bases.

Our position at the heart of Europe is critical to this success. These investments are not in the British market but in Europe itself.

There are several reasons for this U.K. success. Not least is our world leadership in research and development across a whole host of sectors. Back in the 1980s Japan's Trade and Industry Ministry released figures showing that 55 per cent of the world's significant inventions since World War II had come from Britain. Our historic science and technology base really is a priceless asset.

Access to the state-of-the-art technology is as critical for Canadian companies as for everyone else. The brain power of the automotive industry, for example, is in Britain. All the world's Indycar design and development is done in Southern England and 15 out of 16 Formula One cars originated there with dramatic results. It's not just our Damon Hill or your Jacques Villeneuve who have benefited either. Innovations such as anti-lock braking systems have grown directly from Formula One research.

There is more biotechnology business today in Britain than in France and Germany combined and we are the world's third-largest exporter of medicines, with 12 per cent of pharmaceutical exports to more than 120 countries. In 1994 the industry spent some $3 billion on R&D. We have also had innovative work for some time on multimedia and the country is a real test bed for the future.

There are close links between industry and British universities. Toshiba is carrying out its most advanced research at Cambridge—on products that may not see the light of day before the next century. Hitachi has a major software development programme there, close to its U.K. manufacturing base. Other Japanese firms have brought in their international software development because the British are not just creative—having designed products they can produce them too. R&D in Britain is far cheaper than in Japan.

And of course these days you have to speak English in R&D to communicate across the world. The U.K. advantage here is obvious.

That's research, but there are powerful economic reasons for our success too. Investment is the greatest dynamic force for trade in the world today and as an open trading nation Britain is in the forefront of the investment trend. We actually promote both inward and outward investment. It is a win-win situation. Canadian investment stock in the U.K. was worth C$13.7 million in 1995 but British stock in Canada was actually C$16.4 million. And just as the U.S. is the largest investor in the U.K., so Britain is the largest foreign investor in the U.S.

Our macro-economy is now in great shape. We have had the fastest rise in productivity of any OECD nation. During the past decade we have attracted $150 billion in investment stock. Our inflation level is a record low at below three per cent and matched by growth. We have led Europe out of recession. Our tax base has been revolutionised with the lowest levels of all the main European economies. We have 33-per-cent corporation tax and our top personal rate has gone from 83 per cent in 1979 to just 40 per cent today. Basic rates are much lower still.

One of our industry ministers was visiting Hewlett Packard's new plant in eastern England the other day and said it straight: "The government of business is not the business of government." We have led the world in both deregulation and privatisation. British Airways, British Steel, British Telecom are now world leaders in the private sector. Bernd Pischetsrieder, the head of Germany's auto giant, BMW, has summed it up: "Structural change has made Britain by far the most attractive place to invest in Europe."

Look at telecoms. Northern Telecom and AT&T are just two of 155 operators now in the U.K. Some of our European partners have barely begun to deregulate. The results for business are apparent: our charges are the lowest in Europe.

Britain is Europe's only deregulated labour market. We work 24 hours, seven days a week, through flexible shift patterns. In the electronics and auto industries, four x 12-hour shifts are normal. Four days on, four days off. The rules don't allow that in much of continental Europe. Our costs are also the lowest among our European competitors and we have the lowest level of strikes since records began in 1895. The last three years have been the lowest ever.

Services matter as much as manufacturing. Our financial services sector is especially important for companies setting up in Britain. There are more American banks in London than there are in New York and more Japanese ones than in Tokyo. We have regional centres too but London is Europe's only global capital—even the Deutschebank has moved there from Frankfurt and other banks have followed from Germany and Switzerland. Foreign exchange going through London now exceeds that in New York and Tokyo combined.

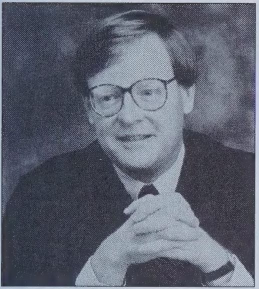
Canadian companies enjoy the benefits of all this and as well as the historic links between our two countries there is the fact that we count firms from overseas as British anyway. Bombardier is seen as an integral part of Northern Ireland because of the importance of its Shorts aircraft operation to the economy of the province. Indeed, Bombardier and Northern Telecom are among the largest employers in Northern Ireland, and Nortel is one of the biggest employers in the Devon and Cornwall region of

South West England too. We have also welcomed world-famous Canadian names like Seagram, ALCAN, and McCain, not to mention Canadian financial services in the City of London, energy sector companies in the North Sea, and many smaller companies.

In many ways the Ontario economy reminds me of ours. The auto industry for example. We both have the Americans; you have one or two Asian companies—we do not. But we have Honda, Toyota, Mazda with their links with Ford, and Nissan, which has been a great story. We have seen investments from Canada like that of Magna International, which bought up most of the automotive operations of a British company, giving it six plants and access to major European auto-makers as well as Ford and General Motors. It is a global industry: companies supplied in Britain are also supplied here in Canada.

Canadians feel comfortable in Britain. They like doing business there and living there. Companies like Newbridge in Wales. That's the name of both the firm and its location but there is more to it than that. The founders came from Newbridge in Wales to set up in Canada. Having made it here, they went back to do the same there. Tell me old ties don't matter after that.

The appreciation of the meeting was expressed by Robert Dechert, Partner, Gowling, Strathy & Henderson and President, The British Canadian Chamber of Trade and Commerce.



October 31, 1996

A joint meeting of The Empire Club of Canada and The Canadian Club of Toronto

Jeffrey Simpson

Columnist and Author

"THE ANXIOUS YEARS: POLITICS IN THE AGE OF MULRONEY AND CHRETIEN."

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Michael F. Garvey, FCA, Partner, Price Waterhouse and a Director, The Canadian Club of Toronto; Sangita Patel, Grade 12 Student, Parkdale Collegiate; Alan Sullivan, President and CEO, Canadian Institute of International Affairs; Dr. Sylvia Ostry, Chair, Centre for International Studies, University of Toronto; Roger Parkinson, Publisher and CEO, The Globe and Mail; The Honourable Donald Macdonald, P.C., C.C., McCarthy Tetrault; Marnie McGarry, Director of Development, Adventure Place, Calico School and a Director, The Empire Club of Canada; The Rev. Dr. Malcolm Sinclair, Minister, Metropolitan United Church; The Hon. Barnett Danson, P.C., Former Minister of Defence and an Honorary Director, The Empire Club of Canada; The Hon. Madam Justice Rosalie Abella, Ontario Court of Appeal; and The Hon. Michael Wilson, P.C., Vice-Chairman, RBC Dominion Securities Inc. and a Director, The Canadian Club of Toronto.

Introduction by Julie Hannaford

In the spring of 1971, a varied and diverse group of men and women residing mostly temporarily in Kingston, Ontario, were preparing to depart from that city and Queen's University, bachelors degrees in tow, headed for the fulfilment of their equally diverse goals, aspirations, and talents. Amongst that group was our guest today, Mr. Jeffrey Simpson.

For those who had pursued their undergraduate studies as classmates of Jeffrey Simpson, and who had come to know him in the halls academe, I am told that it was a relatively sure bet that our guest would go on to achieve prominence and distinction as a journalist.

That he would win all three of Canada's leading literary prizes—the Governor General's Award for non-fiction book writing, The National Magazine Award for political writing, and the National Newspaper award for column writing—was likely not foreseen by his colleagues, but I am further told those distinctions, if not predicted by his colleagues at the time, were certainly foreshadowed by the insight he displayed for politics and culture both at the university, and in Canada in general.

I am told, however, that as the day for graduation and departure from Queen's University for Mr. Simpson approached, a crisis of sorts developed at the Queen's University radio station, where Mr. Simpson had become in his short career at Queen's University, the pre-eminent sports broadcaster, and announcer for Queen's Radio. The fact that Jeffrey Simpson was for a short but golden time in Kingston the Foster Hewitt for Queen's Radio broadcasting is mentioned nowhere in Mr. Simpson's official biographies. Yet, the search for a candidate to replace that talent apparently dominated the concerns of Queen's Radio for at least some period of time after Mr. Simpson's graduation.

Having elected to focus his writing career on politics and culture, our guest deprived consumers of the sporting media of a contender for Foster Hewitt. But such loss, concurrently, constituted Canada's best gain in the field of contenders for insightful, trenchant, and critical analysis of Canadian political and cultural environment.

After completing a parliamentary internship scholarship in Ottawa in 1973, Jeffrey Simpson joined The Globe and Mail. Beginning with coverage of City Hall in Toronto, and coverage of Quebec politics, Mr. Simpson became a member of the Ottawa Bureau in 1977. Eighteen months later he was named Bureau Chief. From 1981 to 1983, Mr. Simpson served as the Globe's European correspondent, based in London. He began writing his national affairs column in January, 1984. Over the last 15 years, Mr.

Simpson's books, "Discipline of Power," "Spoils of Power" and "Faultlines" document the evolution of Canadian politics, and concurrently, the Canadian personality. Each of the three books, and most particularly, "Faultlines," have also provided extensive commentary on the role of the media in politics, the politics of journalism, and the uneasy struggle for definition of the Canadian vision.

In having acquired his distinction as being amongst Canada's pre-eminent political analysts, historians, and cultural theorists, I am pleased however to say that Mr. Simpson has kept the writer's talent to mix metaphors creatively, and for those of you here today, who still miss Jeffrey Simpson's alternative career at Queen's Radio, you will be heartened to hear the manner in which Mr. Simpson describes his own craft, in his most recent book, "The Anxious Years." Speaking of being a newspaper columnist, Mr. Simpson states: "A columnist is like a baseball pitcher, if you will forgive the metaphor for my preferred sport. ...the columnist who endures must mix his offerings, like a successful pitcher who must vary his pitches, because the enemy of interest is the failure to surprise. Just as the same pitch repeatedly delivered to the same place will eventually alert batters, so a column written on the same subject with the same slant will eventually suggest to readers that they have considered all this before and need not bother again. A columnist therefore must change subjects, and even approaches, always remembering that there are bread and butter matters to which he must return, like a pitcher who in a pinch delivers what he throws best."

For those of us who have been faithful readers of Mr. Simpson, we know the extensive mix of his offerings, of his ability to attack subjects from which those of lesser mettle retreated behind the mist of diplomacy and tact. Of his own career, Mr. Simpson admits that he has played all the roles including those of scold, satirist, reporter, commentator, and analyst. In having done so, our guest has provided us with a road map on which to organise our movement towards the next century.

As we do so, we enter a time when it appears that the search for a definition of the Canadian identity has become a matter of epic proportion in the Canadian imagination. Or at least it appears so from the menu of documentaries and documentary writing occurring today.

The Canadian consumer of such devotion to the search for the holy grail of the Canadian identity would do well to preface their consumption of such concerns with Mr. Simpson's analysis of this search, which he made in 1993, in "Faultlines." Mr. Simpson said:

"The search for a Canadian vision has proven exceedingly divisive for a people previously accustomed to making arrangements rather than making history. In their own quiet way, of course, Canadians did make history by knitting together vast geographic space and creating a federation that is the second-oldest on earth, against the formidable odds of the ethnic hand dealt by the seventeenth-and-eighteenth-century French and British empires. But Canadians were too modest, and perhaps too wise, to elevate their accomplishments into universal truths or overarching visions, since these are usually accompanied by the celebration of certainty that, in turn, demands an allegiance to unifying principles that in a country with so much diversity would divide more than unite."

Jeffrey Simpson addresses The Empire Club of Canada and The Canadian Club of Toronto today at the threshold of the release of his book entitled "The Anxious Years: Politics in the Age of Mulroney and Chrétien." In addressing our joint meeting today, Jeffrey Simpson brings the experience of a seasoned journalist, the insight of a commentator made wise by a history of change, and the good sense of a political observer who had the integrity to become a captive of no one.

Ladies and gentlemen, please join me in welcoming Jeffrey Simpson to our meeting today.

Jeffrey Simpson

We are told, in these times of restructuring, that we must all be prepared to change jobs every five or 10 years. I must be, judged by these defining standards, something of a throwback to another age, since I joined The Globe and Mail in 1973 and have been hanging around ever since—too long my various critics would say, and it is the cross a columnist must bear to have critics, lots of them. I did not know it at the time—nor did any of us—that the year 1973 would be (to steal the title of a book by the British writer Paul Johnson), the birth of the modern. It would be the start of what I have called in my book, "The Anxious Years," a collection of columns that deals with the Mulroney and Chrétien years but which tries to suggest in various places, as I will today, that the anxiety has much deeper roots.

Nineteen seventy-three was the year our post-war world changed with the OPEC crisis that gave the western industrial world something called "stagflation." The OPEC crisis and what ensued marked a watershed between the long post-war period of strong economic growth and the slower growth that followed.

Today, looking back, that pre-OPEC period seems like a distant age in which our economies fed off the pent-up demand from the war, low prices for natural resources, weaker international competition and apparently endless growth. It was a period in Canada of apparently endless possibilities, symbolised quite brilliantly by Expo '67 in Montreal.

Slower growth after 1973, with its attendant slumping productivity gains, is among the factors that lie at the heart of what has plagued governments and the public ever since. We are now living through what we might call a delayed and painful readjustment to the developments and decisions taken long ago, under different circumstances, assumptions and beliefs, and this readjustment in turn explains much of the anxiety that has characterised our society in more recent times. Indeed, the longer I observe affairs here and abroad, I am struck by how much history hangs over today's decisions and by the fact that the roots of today's challenges lie in decisions made long ago.

We may remember that the 1960s, turbulent in many ways, also saw governments in Canada launch major programmes that have defined post-war Canada and to which Canadians remain attached. These include: the Canada (and Quebec) Pension Plans; federal-provincial programmes for financing welfare, post-secondary education, health and hospitalisation; regional development; and, in 1971, a significant expansion of unemployment insurance. All these programmes were therefore in place when growth began to slow after the OPEC crisis, as an antidote to which governments attempted to spur activity with tax incentives and increased spending. The result was that slowly at first, then with increasing rapidity, the growth lines of government revenues and expenditures began to diverge, debt-repayment rose and governments were forced, reluctantly in most cases, gladly in others, to hack away at spending and to raise taxes, especially in the 1980s. It has been my lot as a journalist and columnist to observe this entire process, and as I have said in the introduction to the book, it was intensely frustrating to watch as we delayed difficult decisions and remained blind for so long to what we were doing to ourselves.

I remember arriving in Ottawa in late 1976, shortly after the Auditor General of Canada announced that Parliament risked "losing control of the public purse." Eighteen months later, Prime Minister Pierre Trudeau announced when confronted with a $7-billion deficit that: "We must have a major re-ordering of government priorities. We must reduce the size of government … Canadians within several years would almost certainly be faced with a fiscal crisis." A year later, a new Prime Minister, Joe Clark presented a budget on which his government was defeated that was called "short-term pain for long-term gain." Would you like to guess what the "pain" amounted to? It called for holding spending increases down to 10.9 per cent! We know how Canadians reacted.

Shortly thereafter the brutal recession of 1981–82 turned a weakening fiscal situation into a mess against which, until recently, we were unable to make significant progress, or at least the kind of progress the situation required. Instead, our debt rose from $19-billion in 1969 (in 1969 dollars) to what we know it to be today.

This is hardly the place for a detailed review of our last two decades, but I mention a few of these points to underscore that the deterioration of our fiscal situation underlies many of the tensions during what I have called the "Anxious Years," as governments of different stripes, federal and provincial, struggled to bring some semblance of balance to their books.

The struggle in Ottawa has been going on through two governments and it is not over yet, a struggle that has often featured bitter debates, and even massive street demonstrations, pitting public-sector employees against their employers, namely governments. Indeed, I have sometimes thought that the fight between government and its unionised employees has matched in intensity anything between political parties.

One of the very first columns I wrote in early 1984 after accepting my current job concerned the fragile state of the country's finances. In those years, anyone who raised the problem of our deteriorating fiscal situation was accused of being a neo-conservative, crypto-fascist, a captive of Bay Street or worse. I never liked to think of myself as any of the above; indeed it was to prevent neo-conservatism from triumphing politically and intellectually that I used my soapbox to issue many warnings. I used to say, as Winston Churchill once did, that there was a right-wing way of looking at the world and a left-wing way of looking at the world, and then there was arithmetic. I used to plead privately with my left-wing friends to take the matter seriously. I used to ask them to think about deficits and debt this way: that those with lots of money here and abroad loaned it to us, then we taxed low- and moderate-income citizens to pay them back at handsome rates of interest. This was negative income distribution, and it was crazy. I used to argue that if the state became enfeebled by deficits and debt, it would no longer be able to engage in at least some of the necessary, useful and community-building activities that we wanted from the state.

Large deficits are the neo-conservatives' best friend, because it allows them when public opinion is right to slash away at the state which they feel is the source of much evil. For them, the smaller the state the better, because they fundamentally do not believe in community, but rather in society as an agglomeration of individuals, each maximising economic gain, and the state just gets in the way.

But I believe in selective, creative use of the state for collective purposes such as the fostering of national identity, furthering social justice and the enlargement of what the German sociologist Ralf Dahrendorf called "life chances" for the largest number of citizens. The free market is the best mechanism ever devised for the delivery of goods and services and for sending signals to consumers and taxpayers to guide their behaviour. But the market cares little for social justice, and a cohesive society must search endlessly for a balance between justice and efficiency, rights and responsibilities, so that the agency of government is needed to lean periodically against the injustices and disequilibriums caused by the free market. But this balancing was less possible with governments burdened down by insupportable deficits and debt.

Governments during these "anxious years" constantly found themselves in the maelstrom of change; usually reacting, sometimes leading. What characterised these "anxious years" were a series of major policy initiatives—responding to or driving change—that rocked the body politic and produced what I might call "in your face" politics. Think of them. Wage and price controls. Mr. Clark's budget. Patriation of the Constitution, with the arrival of the Charter of Rights and Freedoms, a hugely consequential development in changing the nature of Canadian politics. The National Energy Program. Free trade with the U.S. The Goods and Services Tax. More constitutional change: Meech Lake and Charlottetown. The fight against the deficit. The attempts to reform social programmes. That's an agenda for a lifetime, compressed into two decades. And I might add that in addition to these initiatives, important underlying demographic changes were occurring such as immigration that in the late 1970s began turning away from traditional European sources and the entry of women into the work force in large numbers.

Each major governmental initiative was accompanied by prime-ministerial admonitions that if Canadians did not accept these changes, serious, even cataclysmic results would strike Canada. Inflation would eat us alive; energy prices would bankrupt us; without free trade our economy would slip into decline; without constitutional change, Quebec would separate; without lower deficits, the International Monetary Fund would knock on the door. The rhetoric that accompanied these initiatives pummelled the body politic. The message tended to be that if Canadians did not pull up their socks, suck in their stomachs and accept these major changes then something was wrong with them or their country. No wonder people got "anxious;" their leaders kept telling them something serious was wrong. But even without these prime-ministerial admonitions, Canadians could see the nature of their governments changing, they could see their taxes rising and services from government declining, and they knew in too many cases that their own incomes were stagnant.

People today wonder how it is that the current prime minister can be so popular, Canadians having vilified his predecessors more often than not. Well, many are the dimensions to that answer, but here is one. Along comes Mr. Chrétien after all those admonitions and all that rhetoric and all those doubts and he says: "Canada is Number One." Sighs of relief can be heard all across English-speaking Canada. He doesn't ask people to make big changes. He's not in their face. He says we'll solve one problem at a time. He's a manager, not a visionary. He has a tough hide but a restrained ego. He says: "Stay cool. Don't worry. We've got problems, yes, but we're the best country in the world."

This rhetoric may be banal; indeed I have heard his speeches so many times that I can reasonably accurately predict which cliché is coming next. Elites and—dare I say it—newspaper editorials and columnists laugh at this folksiness. We worry, not without reason, that his sunny words deflect us from debating the genuine problems before us. But Canadians, who have the good sense to not get as worked up as we journalists and who are certainly less cynical than we are, eat it up, at least outside Quebec. Under him, Canadians have been experiencing collective decompression after all those years of high-octane rhetoric, threats and huge changes.

There is an enormous irony to what is happening these days, because, of course, his government has spent more time doing what the previous Conservative government tried to do than embarking on striking new initiatives of its own. Think about it. Safely elected, the Liberals have conducted themselves like "Conservatives in a hurry." Having assailed the Conservatives' attempts to tackle the deficit-debt problem, the Liberals introduced budgets that went further, faster than the Conservatives in lowering government spending, privatising crown corporations and otherwise scaling back areas of federal action. Having promised in opposition, although not in the Red Book, to scrap the Goods and Services Tax, the Liberals retained the tax with a few variations. Having argued vigorously against the Canada-U.S. Free Trade Agreement, then having criticised the extension of that agreement to Mexico, the Liberals signed onto NAFTA and became enthusiastic boosters of new free-trade agreements. Having bemoaned the Conservatives' attempts to change social policy, the Liberals introduced major changes to unemployment insurance and major changes to pensions are on offer. Having criticised the Conservatives constitutional reform attempts, the Chrétien Liberals found themselves after the Oct. 30, 1995 Quebec referendum proposing constitutional changes themselves, including the recognition of Quebec as a "distinct society," the very clause in the

Meech Lake accord that caused Jean Chrétien to oppose it.

It's cheap coin to poke fun at the Liberals for being "Conservatives in a hurry," but what this list of flip-flops suggests is that despite the rhetoric and partisanship, there has actually been a remarkable degree of continuity in government policy for more than a decade. And that continuity arises, I would suggest, from the relentlessness of the fundamental challenges facing the country, of which three stand out. The first is the problem of productivity, which such initiatives as the FTA and the GST were designed to address. The second is the fiscal imbalance built up over the last 23 years, which has produced the fight against the deficit and the reform of social programmes. And the third is the fragile state of Canadian unity, which is a euphemism for saying that the restlessness in French-speaking Quebec continues to roil the country and threatens its very existence.

That threat, barely beaten back a year ago yesterday, is still present to the extent that I would warn those here today not to be lulled into a false sense of complacency as we all were in the months and weeks preceding the last referendum. There are those who believe that events will transpire to foreclose the possibility of another referendum, because Mr. Bouchard will not call one he knows he cannot win and because his ultimate objective is not secession after all but rather some modified kind of arrangement that would keep Quebec in Canada albeit with more autonomy. Perhaps those who construct such scenarios will be proven right, but my instinct and experience suggest that it is more likely another referendum will indeed be held within the next five years. All I say is that we in the rest of Canada must never, ever be caught as unaware as we would have been this day a year ago, not knowing how to proceed, not having given a moment's thought to the definition and protection of our national interest. We must think through a range of issues about how to protect and, if possible, enhance that self interest should the worst come to the worst, not by way of menacing Quebec but as a prudent insurance policy of the kind any sensible business or individual would make.

In the meantime, it would be tempting but terribly naive to assume that the Quebec situation will not continue to roil the Canadian body politic and to bedevil our political system with regionally based parties, which are largely an outgrowth of our unresolved unity dilemma. The whole issue may be one that Canadians wish would disappear, like a bad dream that evaporates in the morning. It may be one that nobody wishes to raise in polite company, and it is certainly one we have talked ourselves to exhaustion in discussing. But it will continue, no matter how hard we try, to add its measure of anxiety to the others that command our attention.

These have indeed been "anxious years," despite the kind of political decompression through which we are passing. They have been laced with doubts about the future and our capacity to adjust to incessant demands for change. They have featured too much denial that problems existed that required attention, compromise and even sacrifice. Now, belatedly, we are in the process of redefining our governments, adjusting them to what we are prepared to finance. We are witnessing the simultaneous erosion of governments' capacity to act in the face of global demands, and the resurgence of demands by people to take a greater measure of control of their lives in the face of these impersonal, bloodless forces. We are entering the new and difficult debate over equality between those who favour equal treatment and those who favour policies to make more likely equal results. We are facing a very serious problem of growing income inequalities that cannot be easily dismissed because in them lie the roots of many social problems. We have, as always, what a friend of mine calls Canada's "malignant form of regional envy" on which to waste precious psychological energy. We have been at the precipe of national dismemberment, and drawn back, at least for now. Anxious years indeed.

And yet, there is room for optimism in my heart in the face of all these challenges, many of which are by no means unique to Canada. An observer—and that is all I am—is struck by a sturdy patriotism and a willingness in many quarters to make hard choices and adapt to new realities. This country, with its full cup of problems but with everything at its command, still offers its citizens an unparalleled opportunity for personal fulfilment with a sense of community, of rights offset by an abiding sense of responsibility, a meshing of individual opportunity and a sense of what we owe each other. Our habitual public questioning cannot fully cloak a determination to carry on—with setbacks and heartbreaks to be sure—the ceaseless search for a more prosperous and fair society, a search that is, if I may say so, a noble one worthy of a country as large as ours. It is a search that never ends. It is a search that commands the respect of others. It is a search that demands that we seek within ourselves, as Abraham Lincoln once said, the "better angels of our nature." And it is a search that through all the mindless chatter and setbacks and staggered starts I have chronicled, I still believe goes forward in this frustrating, perplexing but quietly dignified and still inspiring country.

The appreciation of the meeting was expressed by The Hon. Michael Wilson, P.C., Vice-Chairman, RBC Dominion Securities Inc. and a Director, The Canadian Club of Toronto.

November 7, 1996

William Catucci

President and CEO, AT&T Canada Long Distance Services

BRINGING THE BENEFITS OF COMPETITION TO CANADIANS

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Paul Scargall, Partner, Borden & Elliot and a Director, The Empire Club of Canada; George Karidis, Associate Director, Yankee Group of Canada; The Hon. Barbara McDougall, Sharwood and Company; Ann Curran, President, Curran & Associates, Principal, Lewis Companies and a Director, The Empire Club of Canada; The Rev. Linda Nichols, Rector, Holy Trinity Thornhill; and Albert Wahbe, Executive Vice-President, Operations, The Bank of Nova Scotia.

Introduction by Julie Hannaford

It was a Canadian, Marshall McLuhan, who coined the phrase "the medium is the message," thus placing Canada at the vanguard of the most critical debate affecting our culture for the century. The notion that the way in which we communicate dictates the substance of what we communicate is now an accepted fact, and we do well to remember that in many ways, it was a Canadian who shaped that message.

Perhaps the best explanation for Canadian interest in and leadership of communications issues may be found in the beginnings of the telecommunications industry in Canada. While most Canadians are familiar with the CRTC, and with what it does, fewer people are aware of the rationale behind the CRTC's development approximately 90 years ago. The CRTC developed out of a belief that telecommunications services ought to be available to the entire Canadian public at the lowest possible cost. Regardless of location, Canadians were seen as entitled to receive basic telephone service.

But regulation of the Canadian telecommunications industry was thus faced with some significant challenges. First, the delivery of telecommunication services was confronted with the challenge of Canadian geography.

The Canadian Shield, for the telecom industry, was a graphic illustration of the barriers that faced telcos in delivering universal service. Conquering the Canadian Shield to universal service cost money and investment came with a price of its own. And so, that challenge to universal service delivery was resolved in part by the granting of a monopoly.

In its beginnings, Canadians became the recipients of a telephone and telecommunications service which few countries could match. But such universality and guaranteed service delivery came with a price. That price, put in its simplest and most domestic terms, came in the form of the monthly telephone bill delivered to each Canadian household. Essentially, Canadians perhaps characteristically paid their telephone bills without any thought that the bottom line was a matter for negotiation.

Only a very short while ago, all of that began to change.

Today, deregulation is shaking the underpinning of an industry that in Canada was defined and dominated by one entity.

The Empire Club of Canada over its 93-year history, brings to its podium those people who are most likely to affect the way we live and think. At the beginning of each season for The Empire Club of Canada, we determine who ought to address the Club, based upon those events that will most profoundly affect the greatest number of Canadians. There is no question that one of the greatest changes affecting our nation as we move towards the millennium is the change in the way we communicate with each other. It therefore follows that the people who will most profoundly affect our lives and our culture are those leaders in industry and government who shape telecommunications.

It is therefore a privilege for The Empire Club of Canada to hear from the leaders in our telecommunications industry, and to have our series of addresses on telecommunications organised around the question that is currently galvanising Canadian industry today, namely, competition. I am grateful to the speakers in this series of addresses who have agreed to confront the admittedly bald question: "Competition Who Needs It?"

It is also important that our first speaker in this series of addresses brings to the debate a history of leadership and understanding of monopolies in the United States of America.

Bill Catucci is the President and Chief Executive Officer of AT&T Canada Long Distance Services.

Mr. Catucci graduated from Fordham University, and from the New York Law School. He served for four years as an infantry officer in the United States Army, receiving the Army Commendation Medal.

He retired from AT&T U.S. after a 33-year career in which he held assignments in sales, marketing, finance, engineering, law, consumer services, government relations and merger acquisition.

As a leader in industry, he participated in and developed those changes that are part of the telecommunications industry in the United States today. As a leader in his community, he worked with and received awards for community service with the United Way, The Salvation Army, and St. Jude's Rehabilitation Institute. When Mr. Catucci addresses us on the issue of competition and monopolies, he knows of what he speaks, not only because of his extensive career, but because, as he will tell you, he was at one time a fervent believer in monopolies.

The leaders in our telecommunications industries are changing the way we do business, the way we think, the way we live, and the way we understand our world around us. As the first of our speakers in the telecommunications industry, Mr. Catucci is a participant in the making of Canadian history, as well as a leader on how we shall be told our own history.

Please join me in welcoming Mr. Bill Catucci to The Empire Club of Canada today.

William Catucci

Introduction

Thank you Julie for that very generous introduction. It's one my father would have been proud of and my mother would have believed.

I'm delighted to be addressing this prestigious organisation. I understand that Alexander Graham Bell, the "purported" inventor of the telephone, also spoke to The Empire Club, perhaps to some of you who are here today. I noticed some quizzical looks when I mentioned that Bell was the "purported" inventor of the telephone. You do know, there is a group of people in the U.S. who sought to overturn the Bell patent, claiming that an Italian inventor named Meucci really invented the telephone.

Just like those Americans to try to take credit away from the rightful owners. Yes, I'm an American (and of Italian heritage, by the way), born, raised, educated and spent most of my adult life in New York, before moving to Toronto in January. Although my wife and I are really enjoying Toronto, we're beginning to worry about being overwhelmed by that insidious Canadian culture of yours. We find ourselves changing in very subtle ways. For example:

- The first thing we talk about each morning is the weather;
- We wait for traffic lights to turn green before crossing intersections;
- Instead of watching CNN, we now watch CPAC—we were particularly fascinated with the Westray Mine hearings;
- We call our house in New York our cottage;
- I went to a baseball game at the Dome and didn't boo or throw anything at the players.

In preparing my remarks for this audience, I was reminded of the story about Dr. Samuel Johnson, who returned an essay from one of his students with the following notation: "Your essay contains ideas which are both original and good. Unfortunately, the good ideas are not original and the original ideas are not good." I hope, today, you will find my thoughts both original and good.

This is an exciting time to be in the Canadian telecommunications business. You can't pick up a newspaper or trade magazine without hearing about consolidation, convergence, alliances, new technology or applications, any one of which is touted to revolutionise the way we live, work and play. It's a profound time in our history. Revolutions like the Internet, the growth in applications and the sheer jargon that surrounds this business creates enormous confusion, even among people who consider themselves close observers of the scene.

Today, I'm going to speak about "Competition, who needs it?"

First, as a backdrop, let me provide you with some brief comments about AT&T Canada Long Distance Services and its role in fostering competition in this country. I think it may surprise some of you that AT&T Canada LDS is one of the oldest, new companies in Canada. We came on the scene this September, as the successor to Unitel, a company with a 150-year tradition of serving Canadians.

Today, AT&T Canada LDS owns and operates a coast-to-coast fibre optic and digital radio network, serving Canadians with state-of-the-art technology, high reliability, outstanding customer service, and competitive prices.

Much has happened since January. We've created 300 new jobs in two customer service centres (one in Toronto and one in New Brunswick); formed alliances with leading Canadian high-tech firms, such as iStar. And, we're rolling out new products such as WorldSource, which give Canadian business customers more punch when competing at home and abroad. The single biggest event to take place in this company over the course of the year was the adoption of the AT&T brand name. When we placed the new name on the company in early September, it opened a new chapter in our long history. At the same time, we dramatically elevated the perception of this company in the minds of Canadians.

But brand recognition isn't the only benefit of our relationship with AT&T. When we see a customer need that we believe AT&T can help us with, we call on them for assistance. If we need advice on how to improve our network, or a framework for improving customer service, we seek the best advice in the world. And, that frequently comes from AT&T. If they have a product or application that is truly dazzling, we'll work with them to bring it to the Canadian market. Then we tailor it to suit the needs of Canadian residential and business customers.

This doesn't mean they tell us what to do. On the contrary, just recently after a thorough review the Canadian government ruled that we were, in fact, a Canadian-controlled company with an independent board of directors—of which eight out of nine members are Canadian. These experienced and knowledgeable individuals have done a marvellous job of moving this company forward in the marketplace. There's no influx of Americans here—out of a leadership team of 70 exceptional individuals, only four, including myself, are Americans.

Our main goal is to improve telecommunications services for Canadians and we're certainly going to enlist AT&T's help when we need it. Does CallNet have such a relationship? Of course they do with Sprint U.S. Does Stentor? Sure—they've got a very ambitious relationship with MCI. This MCI connection is even more significant now that they've been bought out by BT. There's nothing unusual about what's going on here—as a matter of fact, it's being done in markets all over the world.

Competition: Who Needs It?

What about the Canadian telecommunications market? As today's topic so delicately asks, "Who needs competition?" As a country, as business people, as consumers, we all need competition.

Telecommunications technology is one of the single most powerful enablers of free enterprise—yet, it's ironic that this industry has been shaped by more than a century of monopoly, regulation, and cross subsidy. I don't say that with any sense of derision. Those monopolies were conceived in the public interest and they brought enormous benefits to countries like Canada.

As a former employee of AT&T U.S., I was part of that kind of system. I was a monopolist. I know what monopoly is. If I had been your guest in the late 70s or early 80s, I probably would have told you that the introduction of competition in telecommunications would sound the death knell of western civilisation. And, I would have believed it.

But, I don't drink from the rich cup of monopoly anymore. The world has changed. Global competition is moving us toward what has been called "democratic capitalism," a period in our social and economic development where companies like ours don't dictate customer needs. They respond to customer demand. In a monopoly environment, the question is always: "How do I raise prices?" or "How do I extract more from customers to cover my cost of capital?" or "What services do I want to provide and when?" In our new world, we ask, "How can I serve customers better?" or "How can I attract them and keep them?" or "What services do my customers need?"

Bringing The Benefits Of Competition To Canadians

In my view, the single biggest accomplishment of Canada's experience with competition in long distance is that it has brought choice to customers who, for over 100 years, were told when, what type, and at what price, they would get service.

Certainly, Canada's communications monopoly was responsible for some enormous achievements. How else could the second-largest geographical land mass in the world have a 98-per-cent penetration rate for telephones?—higher than almost any other nation in the world.

But, under monopoly did Canada possess a strong record of innovation? No. Although Canadians had the types of services which we take for granted today, cycles for the introduction of new applications and services were three or even five years behind those in the United States.

Under monopoly, did Canadian business and consumers receive the best possible prices? Au contraire! An independent study, conducted in 1990 by the Angus TeleManagement Group, showed that, if a certain very large U.S. multinational company had positioned its headquarters in Canada rather than the U.S., it would have paid almost two and a half times as much for its long-distance service.

Today, that picture is totally different. Customers like yourselves are getting rates that are just as good as those in the U.S. and competition is saving Canadians $800 million each year.

In terms of innovation, competitors are oftentimes the leader. Our company, for example, was first to bring Frame Relay service to Canada and, today, it is arguably the strongest product on the market. And, we expect to offer Frame Relay and ATM inter-networking sooner than any company in Canada.

Competition is bringing both innovation and better prices, things that people—especially business people—require to stay competitive. But, it's also attracting investment in people and infrastructure. Since competition began in this market back in June of 1992, capital investment by new entrants is estimated to have been in excess of $1 billion.

Forbearance

So, the question is not whether competition is good or bad for the country because we already know the answer to that.

The real question is: "When does fair and effective competition, the kind of competition that brings the greatest number of benefits to you and to Canada occur?" It's not here yet.

The Stentor group of monopoly local telephone companies will claim that they are now competing directly against companies like Sprint and the vastly more powerful resources of AT&T. They'll cry out for more freedom, that the regulator's job is complete and that's it's time to unshackle Bell and its allies and remove any remaining constraints on their business. One would assume by this refrain that companies like Bell and BCTel are doing very badly and that if the CRTC doesn't rush to fill the vacuum, they will be crushed by foreign competitors bent on pillaging this market.

Quite to the contrary. Bell and its Stentor allies certainly aren't doing badly. Over the last 10 years the telcos' returns on equity have been among the highest in Canada. This year, while calling for the immediate elimination of regulation (or what the industry calls forbearance), Bell's profits through September are up 47 per cent and the company is forecasting a 16-per-cent return on equity and profits of almost $1 billion in 1996. BCE's share price has increased from $28 to $62 in 11 months since the federal cabinet overturned the CRTC and gave the Stentor companies a $250 million annual windfall in local service rate increases. BCE market value has increased by over $5 billion since the beginning of this year—from $14.8 billion to $20 billion. In fact, since the beginning of September (when we changed our name, by the way), BCE's stock value has increased by almost $3 billion!

There are many in this audience who would feel some sense of satisfaction if they were getting those kinds of returns on their investments each year. I certainly would.

Not only are they making huge profits, these companies continue to hold the vast bulk of this market. At the end of 1995, the Stentor companies held 81 per cent of the long-distance market share across Canada. Sure, competitors like us are aggressively attempting to grow our business. Each day, we welcome hundreds of new customers to our company. But competition needs to be spread evenly across the country. The market share of new entrants needs to be high enough to reach a critical mass for viability.

The Stentor telcos maintain a great deal of advantages over their competitors. They remain the sole point of contact for each and every telecommunications customer in this country—a privilege conferred on them by virtue of their monopoly on local service. If that isn't enough, the local service monopoly provides a vast safe haven of almost $7 billion a year for Stentor members—that's higher than the revenue of the entire long-distance market put together.

The Stentor companies have more profits in one day than the entire alternative long-distance industry has reported since its inception. And, it's been estimated that even with competition in local service on the horizon, they will hold up to 90-per-cent market share right into the next century.

The fundamental question is obvious: "Is there a compelling reason now for the CRTC to turn away from regulating this market?" We don't believe a proper competitive balance exists in Canada for the CRTC to back away from this market at this stage of its development.

Before forbearance can take place, two key preconditions must be met. The first is in the whole area of subsidies. You see, in the past and right up to the present, high long-distance rates have been used to subsidise local service rates. In today's competitive environment, these types of subsidies are no longer sustainable. The CRTC has recognised this trend and has endorsed a policy of rate rebalancing. Their goal? To remove subsidies and bring prices for local and long-distance service closer to their true costs. Not only will this effort promote effective and vigorous competition in both long-distance and local services, but it will improve economic efficiency and generate further savings for businesses, particularly those in information-intensive sectors. Having said that, we don't believe Canada should turn its back on the social objectives which have been the bedrock of its communications policy for so long. There must be mechanisms in place to ensure that low-income customers can continue to obtain telephone service at affordable rates. The CRTC is currently evaluating ways to accomplish this and our company is actively supporting these initiatives.

Moving to cost-based pricing is clearly an important pre-condition to forbearance. A second pre-condition is the removal of remaining barriers that flow from the Stentor companies' control of the local network. That means providing competitors with non-discriminatory access to those segments of the local network where the telephone companies maintain a de facto monopoly. The Stentor telcos must not be allowed to use their control of the local network to confer competitive advantages on themselves in the long-distance market.

Let me give you one example of the problem: calling cards; more specifically, the ability to use calling cards at pay phones with a magnetic swipe. I'm sure many of you have noticed the Bell ads in airports and other locations proclaiming the fact that their card is the only one that can be swiped at pay phones. I don't know how many of you have had the experience of using a competitor's calling card without that swipe capability. You have to dial up to 30 digits in order to complete a call—quite an inconvenience.

Customers that use calling cards may be reluctant to switch to an alternative supplier for some of their long-distance calling needs, while keeping their Stentor calling card. Not only would they lose the benefit of one-stop shopping, but they may also sacrifice some of the savings they would otherwise have experienced by combining all their calling volumes on a single discount plan. The CRTC has recognised this problem. A few weeks ago it issued a decision which gave competitors the right to a card-swipe capability at Stentor members' payphones. We are very pleased with the decision and look forward to rapid implementation by Bell.

The card-swipe problem has been a significant barrier to long-distance competition—and it is not the only one. We believe that all remaining barriers to the use of the local network must be eliminated in order to foster fair and sustainable competition.

Conclusion

Regulatory initiatives like removing subsidies and knocking down barriers to fair competition will promote economic efficiency and create a solid competitive foundation for the long-distance market.

That will, in turn, ensure that customers receive the full benefits of competition.

If we manage the regulatory transition wisely and pragmatically, you're going to see definite improvements over the next few years:

- Investment in Canada's telecom market (and in Canadians) will increase;
- The level of innovation will increase; and
- The level of quality and customer service will increase.

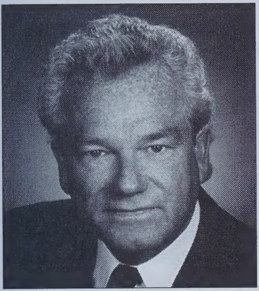
In short, each and every player in this market will be knocking themselves out to delight customers.

To ensure this happens, we need to prove to the regulatory agencies, the federal and provincial governments, as well as customers like yourselves, that fair, effective and lasting competition isn't a given. It isn't created overnight. We need to proceed very cautiously when we talk about removing the regulatory structure which helps to discipline the activities of a dominant carrier—especially one with such a colourful history of bending the market to its will.

When the time is right, Canada will be ready for the CRTC to move away from regulating this business. When that day arrives, you can be sure that customers—not carriers—will be the true arbiters of competition.

Thank you very much.

The appreciation of the meeting was expressed by Paul Scargall, Partner, Borden & Elliot and a Director, The Empire Club of Canada.



November 14, 1996

David Parkes

President and CEO, Sprint Canada Inc.

COMPETITION—CREATING A NEW BALANCE OF POWER

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Robert Dechert, Partner, Gowling, Strathy & Henderson and a Director, The Empire Club of Canada; Jesse Moore, OAC Student, Malvern Collegiate; Patrick Daly, Executive Director, Canadian Business Telecommunications Alliance; Gregory Ewert, President, Global One; Heather Acheson, Special Events and Incentive Program Manager, Communique Group Inc.; Paul Bates, President and CEO, Porthmeor Securities Inc.; Gareth Seltzer, Vice-President, Private Wealth Management, Guardian Capital Advisors and a Director, The Empire Club of Canada; The Rev. Dr. Harrold Morris, Past Moderator, Presbyterian Church of Canada; Peter Grant, Head of the Communications Law Group, McCarthy Tetrault; Riki Turofsky, Chairman, Culture Communications Management Inc. and one of Canada's foremost sopranos and a member of the board of the Canada Council; and Gaylen Duncan, President and CEO, Information Technology Association of Canada (ITAC).

Introduction by Julie Hannaford

Last week, The Empire Club of Canada opened its series of addresses on telecommunications organised under the question: "Competition: Who Needs It?" with an address from Bill Catucci, President of AT&T Canada. Each of the speakers invited to address The Empire Club on the issue of telecommunications and competition were asked to speak as directly as possible to the fundamental issue in telecommunications today and each of the speakers recognised that in asking the question: "Who needs competition?" the underlying question was also: "Who needs monopolies?"

Our first address from Mr. Catucci began with a confession. As Mr. Catucci said, had he spoken to our Club 10 years ago, he would have spoken from the perspective of a confirmed true believer in monopolies. He was in effect a monopolist. He is now a reformed monopolist, or perhaps more precisely, a true believer in competition.

What we learned in that first address was that monopolies were essential to the development and the entrenchment of telecommunications services in Canada. Without them, Canada would not have enjoyed its pre-eminence as having 98-per-cent penetration rate for telephone service in the second-largest geographical land mass in the world. The useful life of monopolies, however, has come to an end, and what we have also learned is that perhaps the better question is how we define competition in a global economy?

Our speaker today will likely not confess to any former fidelities with monopolies. Rather, David Parkes, President and Chief Executive Officer of Sprint Canada, addresses us from a history of understanding and participation in the competitive marketplace. He obtained his academic training and business degree from York University in Toronto, began his business career with Versa Food Services Limited, moving to Cara Operations where he was Director of Operations and subsequently Vice-President of the Retail Division. He became Senior Vice-President of the Urban Restaurant Division and Retail Division in 1982.

David moved to Cantel in the fall of 1984, and was named Senior Vice-President of Sales and Marketing for Canada in 1986. In 1990, David become President of Cantel Ontario, which represented 55 per cent of the subscribers and revenues in the company.

David joined Sprint Canada as President and Chief Executive Officer on January 9, 1995. As a leader in competitive delivery of telecommunications services, David Parkes' vision of competition has evolved to include not only how telecommunication services are delivered competitively to the Canadian consumer, but how the business itself operates within society. Our speaker views competition as an objective that can only be achieved if a company effectively develops a system of values that ensures the cohesion of the company that is competing in the marketplace. As a result, David Parkes' business philosophy includes not only the usual vision, objectives, and strategies, but also provides for values that define how people act and work together, and define the type of work environment that people want. If it is true that advances in telecommunications will change the way we live, act, work, and entertain ourselves, then it is also true that the leaders in the delivery of telecommunications services must also be leaders in defining the protocols for working in the telecommunications environment. In defining values (team work, responsiveness, balance, and innovation), as the underpinning and foundation for Sprint Canada's participation in the industry, our guest today brings the concept of competition to a second level.

It was our guest today who suggested that any series of addresses on telecommunications in Canada ought to be organised around the blunt question: "Competition: Who Needs It?" I fully expect that our guest today, David Parkes, has an equally provocative answer to the question.

Ladies and gentlemen, please join me in welcoming David Parkes, President and Chief Executive Officer of Sprint Canada to The Empire Club of Canada today.

David Parkes

Good afternoon, ladies and gentlemen.

I hope you've all finished your meals because I wouldn't make a good impression if I interrupted you while you were eating? Well, that hits close to home, doesn't it? I don't think I'd be far off the mark if I guessed that probably a third of you have recently had your dinner at home interrupted by a phone company representative informing you that, based on your calling history, you had become eligible for their particular long-distance savings plan. Your thoughts at that moment? Probably something like: Telecommunications competition in Canada—who needs it!

Well, it's unlikely that you would form your thoughts precisely in that way but I think it's fair to say that the gist of it is about right. You're peeved. You're disgruntled. And you're my customer. As you will see, the customer is the focus of my presentation to you today. Because the customer is the focus of everything we do at Sprint Canada.

I'm the first to admit that since the launch of competition in the marketplace, the telecommunications industry has become more than a bit of a pain—in the media, on your phone, in your face, just about everywhere you look, and especially on the tube. Those of you who haven't been solicited by phone have more than likely had at least one episode of your favourite TV show interrupted by one or more of these not-so-subtle sales pitches.

Competition in the Canadian telecommunications industry? Who needs it, indeed! Ladies and gentlemen, we all need it.

Why do we all need competition in the Canadian telecommunications industry? It can be expressed in one simple word. Balance.

Competition in telecom has essentially led to a re-balancing of power in the marketplace. The balance of power now rests where I believe it should and where it definitely did not prior to competition in the industry. The balance of power now rests with the customer. It now rests with you.

It is a direct result of the first and foremost benefit that a competitive environment delivers and that is choice. For the customer, for you, choice is power. The implications of this re-balancing are widespread and profound. And the move from a monopolistic environment to a competitive environment has led, literally, to a revolution in the telecommunications marketplace. Let me quickly paint you a picture of the differences between then and now.

Back then, in a monopolistic environment, there was choice, but it rested with the monopoly. The monopoly could choose to act, or not act, to upgrade equipment, invest in new technology, expand services. Literally, it had complete control.

In any case, you were forced to buy an essential service at pre-determined prices. However, despite all that, it has to be said that sometimes the system did work. But, on the other hand, sometimes it didn't.

What determined when and if the monopoly chose to act? Short-term corporate goals, which sometimes coincided with your needs. But not always. The monopoly had a guaranteed rate of return, and therefore represented a virtually risk-free investment. Not a bad thing, but who paid higher prices to sustain it? You did.

What if you got really teed off, because it cost twice as much to call your mother in Florida as it did for her to call you? Or you were getting really bad attitude from a company rep? What could you do to deliver a really strong message that you were not satisfied? Absolutely nothing. Except maybe write a letter. It was entirely up to the monopoly to respond to your needs and there was no incentive to do so. Fundamentally, it's a question of attitude. The monopoly was accountable to the regulatory bodies, and to its investors. It was not accountable to its customers, to you. And it showed in its attitude.

So, that was then. And this is now. It's a different balancing act. Now, choice rests with the customer. The customer is free to choose the service that is most affordable and most appropriate for his or her needs. And this choice absolutely represents power. The companies that want your business have to meet your needs because now, if they don't, they don't just have an unhappy customer, they don't have a customer at all.

Now, in order to raise capital, in order to be regarded as a good investment, telecommunications companies can't just send out a bill and collect the cash. They have to manage their costs, operate efficiently, plan for the long-term—just like any other legitimate business.

Now, you don't pay more to maintain the status quo. They have to run a better business—so you pay less.

Now, your phone company has to invest in innovation, in updated facilities, in better service. It has to offer good value. Today, if you're not satisfied, you're likely not writing letters or complaining to management. You're simply taking your business somewhere else. Now, the attitude of telecommunications companies is clearly different. They are accountable first and foremost to you. If their attitude suggests otherwise, they will likely not be in business for long.

For you and I, the most obvious difference has been simple. Apart from being able to choose the best deal, we can now actually expect and demand service and satisfaction in a way that we never could before. If our phone company annoys us, we now have the choice to switch to a company that will work a little harder to keep us happy. This point gives us a clue to the shape of the competitive environment in the years to come.

Today, the marketplace is still being driven primarily by the best deal. Customers are confused by all the messages bombarding them every day. They're not yet sure what's right for them. Clearly, this isn't the best environment for you, or for us. Five years from now the telecommunications marketplace will be driven by longer-term, more service-oriented relationships. At least that is if we at Sprint Canada have anything to say about it and I believe we will.

Sprint Canada will strive to continue to operate in a position of leadership, both in making a case for a fully competitive telecommunications industry and in making sure the competitive environment evolves in a way that offers maximum advantage to all of society's stakeholders. Sprint Canada has always been front and centre in promoting real and effective competition in telecommunications in Canada. We knew it was good for consumers, for business, and for the Canadian economy. And, as much as anyone else, we are a stakeholder in this economy.

Contrary to what many people believe, we are not a subsidiary of a giant American carrier. Sprint Canada is licensed to use the Sprint brand and technology by the Sprint Corporation, but we are as Canadian as a maple leaf. And we have been very involved in shaping the competitive scene in Canada.

In 1992 and before, CallNet Enterprises, our parent company, was extremely active in the proceedings which resulted in Telecom Decision CRTC 92-12—opening the long-distance market to real competition. In 1993 Sprint Corporation invested in a 25-per-cent non-voting equity position in CallNet Enterprises, which subsequently changed the name of our operating company to Sprint Canada.

Most recently, CallNet has been a primary participant in the proceedings to open up the last frontier, the local service market, to competition. Our proposals now before the CRTC represent one of the most efficient and innovative models of competitive entry into this market. I believe that they will be very influential in determining the shape of local competition in Canada when it becomes a reality.

In our move towards a fully competitive market, we in Canada have not taken the route of complete deregulation. On the contrary, regulation is one of the key factors for success in a truly competitive telecommunications marketplace.

In opening up Canada's long-distance market, the CRTC recognised that deregulation of the industry must proceed in a measured fashion—for good reason. The monopoly had the twin advantages of critical mass and superior capitalisation, built up by years of guaranteed returns. It could easily have undercut the rest of the market for as long as it took to squeeze its smaller competitors right out of business.

Had the CRTC decided to adopt a hands-off approach, Canada would have ended up, in the short term, with some lively competition. But in the long term, we would have been left with the same monopoly we started with. The reality is that without some regulation you wouldn't have any competition. The CRTC recognises this.

So today, we have what I like to call "enlightened" regulation. It is regulation that maintains the balance. It maintains an environment in which competition can evolve in a healthy way. And it is the kind of regulation that will continue to be important as the local market opens up to competition.

One of the results of our move into the competitive market has been the growth of Sprint Canada from a small upstart, into the leading long-distance alternative in Canada. We are the number-one long-distance alternative to small- and medium-size businesses. We are the leading long-distance alternative in the consumer residential market. We are a major player in the 1-800 toll-free market, and we are making substantial inroads into the large corporate marketplace.

As proud as I am of our success, I'm certainly not going to argue that competition is good because it's good just for us. Long-distance competition has been good for virtually everyone it has touched. Too good to be true? Let's examine the various groups affected.

First, the consumer. We've already said choice has given you power—the power to demand the unbeatable combination of better price and better service.

Second, business. Business is enjoying the same advantages exponentially. Telecommunications represents the second-largest cost on the income statements of most businesses, so a drop in price has had a significant upward impact on the bottom line of any business that depends on telecommunications services. The Financial Post recently estimated today's average long-distance toll rate at $0.20 per minute, compared to over $0.40 in 1990, which would put Canada on par with the U.S. in terms of affordability. This translates into billions of dollars in annual savings for Canadian consumers and businesses.

But cost savings are not the only "win" for business. Combined with the innovative "better service" side of the equation, business can now operate faster, more efficiently, and more effectively. When discussion of competition in the telecommunications industry first began, a central goal of Canadian policy-makers was to create conditions that gave Canadian companies an edge in the global marketplace. As a result of competition they now have that edge.

The third group is the telecommunications industry itself. Before the long-distance market opened up to competition those opposed to it argued that, within the industry, it would increase the cost structures, increase the cost of capital, increase revenue requirements, degrade the quality of service and the efficiency of network planning, and ultimately reduce productivity and profit levels.

To put it mildly, their fears were unjustified. Competition has made the telecommunications industry one of its biggest winners. According to Statistics Canada, telecommunications growth has outpaced growth in most other sectors of the economy in every year since 1992. Despite falling per-minute costs for long distance, revenues in the telecommunications sector have increased substantially over the past five years. And, operating revenues and profits are currently rising steadily. Ironically, the Stentor companies have been one of the biggest winners from competition, and are predicting significant increases in earnings for the coming year. We are all aware of the recent stock market performance of Canadian telcos. It makes sense that if our telecommunications sector grows in dynamism and efficiency, its opportunities both at home and around the world will increase. So, the industry is already reaping its rewards.

And finally, the national economy. Telecommunications competition has had extremely positive effects on the economy. It has accelerated the creation of high-skilled jobs, it has enhanced the development of the Canadian information infrastructure and it has expanded investment opportunities in the telecommunications industry.

CIBC Wood Gundy, in its Research Highlights recommends investment in Canadian telcos for a 10–30 per-cent one-year total return. It states that "The solid balance sheet, experienced management, reputation for customer service, diversified suite of services and state-of-the-art infrastructure are key competitive strengths for the telcos." Quite a bit different than the doomsday prediction of the former monopolists!

I believe I've made a strong case for why we all need competition in the Canadian telecommunications industry. Does this mean that in order to enjoy the benefits of this competition, we're going to have to continue to put up with the marketing wars—with massive advertising campaigns and aggressive sales techniques? Well, in the short term, the answer is yes. Competition in Canada is still in the early stages, and we are years from reaching a state of more normal market equilibrium. But the long-term, mature competitive environment will, we all hope, be a little less intrusive.

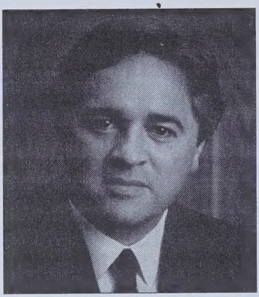
How are we going to get there? We at Sprint Canada plan to get there by focusing on one of our key corporate objectives—"To become the number-one telecommunications company in customer satisfaction, as measured by our customers." This is, I believe, the key to the continued evolution of the competitive environment.

And it is, as much as anything else, a question of attitude for us—an attitude of leadership by focusing on the needs of our customers. As I said before, our customers are the focus of everything we do at Sprint Canada. Very simply, our long-term goal is to have a great relationship with our customers, large and small. We're going to make them so happy that they won't even think about changing phone companies when they get that next call in the middle of their dinner.

It sounds like an abstract sort of goal and it's certainly a challenge. But I'm sure that the company which is most successful in achieving this goal is the one that will lead the way in the Canadian telecommunications marketplace of the future.

And, it's important to recognise that this goal wouldn't be foremost in anyone's mind today, were it not for the new balance of power created by competition. The customer will ultimately define the way we do business. So, in closing, I'd like to make a toast—to you, the customer. Thank you.

The appreciation of the meeting was expressed by Gareth Seltzer, Vice-President, Private Wealth Management, Guardian Capital Advisors and a Director, The Empire Club of Canada.



November 19, 1996

The Hon. Brian Tobin

Premier of Newfoundland and Labrador

WHY THE CHURCHILL FALLS AGREEMENT MUST BE RE-NEGOTIATED

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Margaret Scrivener, Former member of the Provincial Parliament for the riding of St. David, member of the firm Martin & Meredith Limited Real Estate and an Honorary Director, The Empire Club of Canada; Nick Mancini, President and CEO, Dun & Bradstreet Canada; Janice Tomlinson, President, Chubb Insurance Company of Canada; David Angus, Senior Partner, The Capital Hill Group; Gordon M. Nixon, Vice-President and Director, Head, Global Investment Banking, RBC Dominion Securities Inc.; George G. Capern, Vice-President, Government and Industry Affairs, Boeing Canada; Ann Curran, President, Curran & Associates, Principal, Lewis Companies and a Director, The Empire Club of Canada; David E. Seibel, Country Managing Partner, Canada, Anderson Consulting Canada; The Rev. Ian Noseworthy, Rector, St. Jude Church Wexford; Paul Antle, President and CEO, SCC Environmental Group Inc. and Vice-President, Resourcecan Environmental; Gerry Lukassen, Senior Vice-President, Commercial Banking, CIBC; and Dr. Michael D. Sopko, Chairman and CEO, Inco Limited.

Introduction by Julie Hannaford

Friday, June 16, 1972, was the day chosen by the architects of the Churchill Falls Project for the official inauguration ceremonies, which were to take place at the Labrador site. Eight hundred guests from the upper reaches of government, industry, and international business and finance were scheduled to gather to celebrate the most significant development of the hydroelectric project undertaken jointly by government and private enterprise.

The day was important, however, not because it marked the achievement of what had begun as a dream in the mind of Premier Joey Smallwood in August, 1952, or because it served as a tribute to those entrepreneurs and financiers who took the initial risk and invested in the project through a consortium which became known as Brinco, and not because of the impassioned and impressive rhetoric of those persons who took the podium to inaugurate the project. Rather the day and the proceedings and the ceremonies were marked by the one constant that constantly changes—namely, Canadian weather.

Fourteen chartered airliners and 41 executive jets, carrying the 800 dignitaries, confronted in mid-June temperatures hovering just above freezing, rain that turned the site of the ceremonies and landing strips into quagmires, and fog and low clouds that frustrated the best of navigational personnel and equipment. We are told that of the 220 landings and take-offs registered during this airlift, fully two thirds of them had to be made by way of instruments and few of the landings were made without several unsuccessful passes over Churchill Falls.

All in all, aside from being distinctly Canadian, the weather on the day of the opening ceremonies proved the best metaphor for the history that has shaped and defined the Churchill Falls Project.

If the matter of arriving at the opening ceremonies in mid-June 1972 was marked by the intense negotiation by aircraft personnel of heavy weather, the development of the Churchill Falls project could not have been defined by a better graphic illustration. The story of Churchill Falls, which began with the visit of the then Premier Joey Smallwood to Sir Winston Churchill on August 14, 1952, is marked by all the heavy weather of negotiation on shifting ground, combined with changed expectations, shifting political geographies, and developing international agendas.

The story of the development of the Churchill Falls Project, if it tells us anything, tells us that the only thing we can count on is change. And that development, or progress, only occurs if the architects of development recognise that in an uncertain environment, the greatest progress is made when the participants are willing to shift ground rules, expectations, and imperatives at the same time that the environment (political, financial, and technological) dictates a change in outlook.

When Brinco Limited undertook its investment in Churchill Falls, the expectation of those who were part of the Brinco consortium was that the investment was a good deal because it had been granted a mineral concession. The water power in the Labrador Plateau was a secondary matter and at the time the geographical and environmental odds against its development were insurmountable. Then technology changed and what appeared initially insurmountable became possible. Had the founders of Brinco kept their eyes exclusively on minerals, the hydroelectric project would have been relegated to a secondary although good idea.

Jeffrey Simpson has said of Canadians that we are a people accustomed to making arrangements rather than making history, and if this is true, the story of Churchill Falls is also a metaphor for the making of arrangements. The challenge of Churchill Falls did not lie in geography or technology exclusively. Instead, the challenge and the story of Churchill Falls is a story of prolonged, difficult, at times acrimonious, negotiation.

Our guest today brings us not just a report card on Churchill Falls from 1972. Premier Brian Tobin brings us the reason why we must once again negotiate. If it is true that Canadians do not make history, but rather make arrangements, then Premier Tobin's address today places us at the threshold of an opportunity to make arrangements, or failing same, to make tragic history. Premier Tobin was sworn in as the sixth Premier of Newfoundland and Labrador on January 26, 1996, having first been elected to the House of Commons in 1980. Premier Tobin won re-election in 1984, 1988, 1993, and was appointed Minister of Fisheries and Oceans on November 4, 1993.

Mr. Tobin served as Vice-Chair in the House of Commons Committee on Regional Development and as a Member of the Commons Committees on Transport, Fisheries and Forestry, Labour, and Employment and Immigration.

Premier Tobin addresses us in the midst of the heavy weather surrounding the Churchill Falls Project. For Newfoundland, and for Canada, the vision of Churchill Falls born half a century ago threatens to become a nightmare of epic proportions. Whether we shall make a new arrangement or simply make history is the question and the challenge. In addressing both the question and the challenge as energetically as he addressed the fisheries crisis, we are fortunate to have our guest with us today.

Ladies and gentlemen, please join me in welcoming our guest, The Honourable Brian Tobin, Premier of Newfoundland and Labrador, to The Empire Club of Canada today.

Brian Tobin

I am here today to explain, as I did in Montreal, why the Churchill Falls agreement must be re-negotiated. This is an issue that should concern all Canadians.

From the outset, there are three things we should all realise about the Churchill Falls agreement: It was arrived at in an unfair way; Hydro-Quebec has reaped unconscionable windfall profits; and the Churchill Falls project is not viable under the current agreement.

For all these reasons, the agreement must be re-negotiated. It is not a question of whether. It is a question of how and when.

Let me explain how it was that the Churchill Falls agreement was arrived at in an unfair way. Geography made that possible. To get Churchill Falls power to market, it had to cross Quebec. But, Quebec in the 1960s said "no" to the free movement of electrical power. Quebec said, you can sell the power to no one but us. You cannot "wheel" Churchill Falls power through the Hydro-Quebec power grid. And, you cannot build a power line to reach markets in the U.S. We had no choice but to accept Hydro-Quebec as the middleman.

Once this was clear, Hydro-Quebec could, and did, dictate the terms of the Churchill Falls agreement. A letter of intent was signed between Hydro-Quebec and the developer, Churchill Falls (Labrador) Corporation, CF(L)Co, in 1966. Based on the 1966 letter of intent and Hydro-Quebec's demand for first delivery of power in four years, CF(L)Co began construction at Churchill Falls in 1967. The Vice-President of CF(L)Co Eric Lambert said in 1967 that if the deal with Hydro-Quebec fell through, it would "bankrupt Churchill Falls and imperil Brinco" (CF(L)Co's parent company). Hydro-Quebec knew this and exploited it. By 1969, CF(L)Co had spent $150 million but had no power contract. Hydro-Quebec demanded—and got—agreement for a 40-year agreement, with a 25-year renewal. On top of this, the price for power went down by almost 50 per cent over the 65 years.

As former Quebec Minister Eric Kierans said to Peter Gzowski on September 24: "The agreement had gone from 30 to 65 years. I couldn't believe it. People don't take risks more than 20 or 30 years even on long-term things; that's how insane this thing was." I agree. The 65-year agreement is "insane." CF(L)Co was ready to sign anything to avoid financial ruin. Hydro-Quebec knew this and exploited it. The Churchill Falls agreement was arrived at in an unfair way.

In 1969 the Churchill Falls agreement was a good business deal for Hydro-Quebec. It gave various guarantees, for example that the project would be completed. It purchased $100 million in bonds. And, it invested $15 million in equity. For these, Hydro-Quebec bargained to receive a handsome profit if the price of power and the cost of operating the project had remained stable. But, they did not.

By 1973, the first oil crisis had caused the price of energy, including electricity, to skyrocket. New regulatory arrangements for petroleum were put in place by the Canadian government. For example, in 1974, the National Energy Board increased the export price of natural gas to competitive levels. This involved overriding prices in long-term contracts. This was not done for electricity. And, worldwide, contracts for petroleum and for many other energy sources were re-negotiated to fit radically changed circumstances. But, there was no such re-negotiation of the Churchill Falls agreement.

Let's see how much Hydro-Quebec pays for Churchill Falls power. In 1976 it paid three mills, or three tenths of a cent, per kilowatt hour. Today it pays 2.7 mills, or just over one quarter of a cent. By 2016, the price will drop to two mills, or one fifth of a cent. Let's compare that with how much Hydro-Quebec gets when it sells power. Today, domestic consumers pay almost 60 mills, or six cents per kilowatt hour. Industrial consumers pay 35 mills, or 3.5 cents. In Ontario, you pay even more. Domestic consumers pay 88 mills or almost nine cents per kilowatt hour; industrial consumers pay 50 mills or five cents per kilowatt hour.

Today, Hydro-Quebec pays only about one quarter of a cent for a kilowatt hour and then resells it for up to six cents. That's like buying oil at $1.65 a barrel and reselling it at the world price of over $30.00 (Canadian) a barrel. Put another way, this equates to one cent per litre of gasoline or four cents per gallon. After 2016, the price paid by Hydro-Quebec drops to the equivalent of $1.22 a barrel for oil or 0.7 cents per litre—that is, three cents a gallon—for gasoline.

Let's compare that to an important export from Ontario, Chrysler Mini Vans made in Windsor. That's like exporting Mini Vans to the U.S. for $1200 each, compared to the current price of $21,000 each. After 2016, it will be like exporting Mini Vans for $860 each.

It is not only the low price paid by Hydro-Quebec for Churchill Falls power but it is also the massive quantity of power. Since 1976, Churchill Falls has exported the equivalent of one billion barrels of oil. That is equivalent to all the oil from both the Hibernia and Terra Nova projects off Canada's East Coast. Over the 65-year term of the agreement, the export of energy from Churchill Falls will equal 3.3 billion barrels of oil or more than three Hibernias and three Terra Novas combined.

Hydro-Quebec is buying Churchill Falls power at 1969 prices and re-selling it at 1996 prices. Under the agreement, this will go on for another 45 years. The windfall profits for Hydro-Quebec are immense and unconscionable.

Since full power came on stream from Churchill Falls in 1976, Hydro-Quebec has received benefits averaging about $600 million a year. Newfoundland and Labrador has received benefits that averaged $23 million a year. Recently, that has slipped to $16 million a year. From 1976 to 1996 Hydro-Quebec received 96 per cent of the benefits, while Newfoundland and Labrador got only four per cent. To put this in perspective, in 1995 while Hydro-Quebec received benefits of $1.4 million a day from Churchill Falls, Newfoundland and Labrador received just $45,000 a day.

This is a significant and fundamental injustice. It should be a matter of concern to all fair-minded Quebeckers and, indeed, all Canadians. The Churchill Falls agreement must be re-negotiated because it has yielded unconscionably large benefits for Quebec and unconscionably small benefits for Newfoundland and Labrador.

For the people of Newfoundland and Labrador, the resource owners, the situation will become far, far worse. Costs keep going up to operate and maintain the 40 kilometres of dykes, the massive power house with its 11 turbines, the huge transformers, and the 200-kilometre power line to the Quebec border. Costs have gone up because of inflation, something else not taken into account in the 1969 agreement.

Because of this, by 2001 CF(L)Co will run out of money. Cash shortfalls will follow in various years thereafter. If Hydro-Quebec makes cash contributions, then it gets CF(L)Co shares in return. If Hydro-Quebec makes enough cash contributions, it would gain a majority of CF(L)Co shares and take control of the Churchill Falls project.

In addition, the benefits to Newfoundland and Labrador will continue to shrink. That is because the major benefits to Newfoundland and Labrador are dividends from CF(L)Co. But, beginning in 2002, CF(L)Co will have to forego the payment of dividends in some years and pay reduced dividends in most others. But even this lamentable situation will worsen. In 2016, the price paid for Churchill Falls power will go down again, from one quarter of a cent per kilowatt hour to a fifth of a cent. Massive cash shortfalls will follow. For the remaining 25-year term of the contract, these would total more than $340 million.

To keep CF(L)Co from financial collapse, Newfoundland and Labrador would be forced to close more hospital beds, close more schools, abandon more public services, so that we could subsidise the production of power from Churchill Falls. Meanwhile, Hydro-Quebec would be reaping even more billions of dollars in windfall gains.

We cannot accept a situation where the future holds a $340 million cash shortfall for CF(L)Co and a $56-billion gain for Hydro-Quebec.

The Churchill Falls agreement must be re-negotiated because it is simply not viable. Declining prices for power over 65 years, and increasing costs for operating the project for that period just don't add up. The project simply will not be able to pay its way. And so the agreement must be re-negotiated.

But Hydro-Quebec says "a contract is a contract" and that is that. Well, it isn't. Contracts are re-negotiated all the time when a fundamental change of circumstances calls for it. Ask the public sector unions in that province.

Twelve years ago, Hydro-Quebec recognised the need to re-negotiate the price paid for Churchill Falls power. In 1984 Hydro-Quebec and Newfoundland and Labrador Hydro signed a "Statement of Intent Regarding Churchill Falls Negotiations" to re-negotiate the Churchill Falls agreement.

As its starting point the "Statement of Intent" recognised the need, as is stated in Article 1, the preamble, for "a fair and equitable return to Newfoundland as the owner of the Churchill Falls resource."

The document went on to state: "Bearing in mind the need to reach a compromise approach to a more equitable return to Newfoundland as the owner of the hydraulic resources of the Upper Churchill, the parties agree to devise a formula whereby Newfoundland would receive a fair and equitable return for the electricity produced, taking into account the need to adapt the terms of existing arrangements to the new reality which has arisen since the original arrangements were entered into."

The rest of the document goes on to set out a framework for that re-negotiation. What happened to this statement of intent? It became buried and forgotten, as the negotiation was aborted. But the document shows clearly that Hydro-Quebec, with the knowledge of the Levesque government, recognised that this is an agreement that needs to be re-negotiated.

The statements by Hydro-Quebec ring as true today as they did 12 years ago. Today what we need, in the words of the General Secretary of Hydro-Quebec, is a "fair and equitable return" that takes into account "the new realities." Those words stand in stark contrast to recent statements made by Hydro-Quebec to justify the 1969 agreement.

Hydro-Quebec has said it made no "extraordinary profits on Churchill Falls"—and CF(L)Co receives a fair rate of return. In an October 15 position paper, Hydro-Quebec stated that CF(L)Co made on average $33 million a year since 1977, an 11-per-cent return on equity.

This ignores two critical factors. First, CF(L)Co will soon begin to suffer cash shortfalls that could eventually total $340 million. Second, while Hydro-Quebec invested $15 million in shares, bought $100 million in bonds and gave various guarantees, since 1977 it has received net benefits estimated at $12 billion and will receive as much as $56 billion more before the end of the contract.

What is Hydro-Quebec's return on its $15-million equity investment? In 1977, the benefits to Hydro-Quebec were

$124 million. That is an 827-per-cent rate of return. In 1996, the benefits to Hydro-Quebec are $745 million; that is almost a 5000-per-cent rate of return. In 2016, when the price paid by Hydro-Quebec for Churchill Falls power will drop dramatically, its benefits will increase to about $1.13 billion and its rate of return will be about 7500 per cent. By the end of the agreement in 2041, the benefits to Hydro-Quebec will exceed $1.7 billion and its rate of return will exceed 11,000 per cent.

This is not the profit that Hydro-Quebec bargained for. It is an immense and unconscionable windfall. And, it stands in marked contrast to the 11-per-cent rate of return, soon to disappear, that Hydro-Quebec says is fair for CF(L)Co.

On October 23, Quebec's Natural Resources Minister Guy Chevrette tabled legislation for reciprocal wheeling of electricity. This is a positive development, made in response to planned deregulation in the United States. It does nothing, however, to resolve the serious problems with the Churchill Falls agreement. Instead, it reminds us that Quebec categorically refused to wheel Churchill Falls power. This reinforces the need to re-negotiate the Churchill Falls agreement in light of changed circumstances.

Justice and equity have been too long denied to the people of Newfoundland and Labrador. Tens of thousands remain out of work because of the collapse of cod stocks. Unemployment officially is 19 per cent. We have the lowest expenditure per capita in Canada for health care and education and yet we must cut these services again and again as provincial revenues fall. Our population is going down as people leave the province.

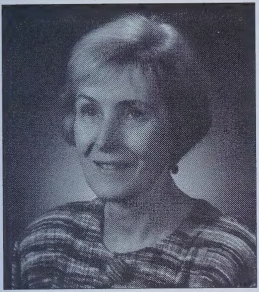
Faced with this and the monumental injustice of the Churchill Falls agreement, what would you do if you were in my position? How far would you go to get a fair share of the benefits from Churchill Falls for the people of

Newfoundland and Labrador, for the owners of the resource?

Re-negotiation of the Churchill Falls agreement, to rebalance the sharing of benefits in a fundamental way, not a minor way, is what is needed. Just keeping CF(L)Co's head above water will not do this. It would not solve the basic inequity that is at the heart of the agreement.

Working together in good faith Quebec and Newfoundland and Labrador can find a solution. We can find a solution that is fair to both our provinces.

The appreciation of the meeting was expressed by Ann Curran, President, Curran & Associates, Principal, Lewis Companies and a Director, The Empire Club of Canada.



November 21, 1996

Dr. Rachel Belash

Principal, Branksome Hall

INDEPENDENT SCHOOLS, INDEPENDENT THINKERS

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Douglas Todgham, Vice-President, the Canadian Institute for Advanced Research and Third Vice-President, The Empire Club of Canada; Joanne Sitarski, Head Girl, Branksome Hall; The Rev. Margaret Tandy, Chaplain, Bishop Strachan School; Joanna Campion, wife of Empire Club Past President and mother to Vanessa who attends Branksome Hall; Adam Zimmerman, Former Chairman, Noranda Forest and Past Chairman, Branksome Hall; Anne Libby, Co-owner, Libby's of Toronto Art Gallery and a Director, The Empire Club of Canada; Joyce Kofman, Former Chairperson of the Board, Branksome Hall, a Past President, The Canadian Club of Toronto and Chairperson, The Conference of Independent Schools; and Anthony R. Graham, Senior Executive Vice-President and Managing Director, Levesque Beaubien Geoffrion and Chairman, Branksome Hall.

Introduction by Julie Hannaford

If there is a buzz word associated with industry today, it is globalisation. If there is a buzz word associated with education it is, regrettably, budgets.

Budgets, like the gallows, are a wonderful thing in that they tend to focus the mind. In Ontario the resultant budgetary planning and the pressure of the deficit has focussed our collective minds in the field of education on how to deliver high quality education, at the lowest possible costs. The pressures of globalisation and rapid advances in technological facilities has had the added effect of shaping what we mean by "quality" education.

And so, out of the popular media addressing the issue of education comes the demand that we equip our students for the global world in which they will be living. That means increasingly our educators are pressured to provide skill sets, to be teachers of practical skills, rather than educators in the old-fashioned sense of the word.

Politicians who address the issue of education address the issue as though it were entirely involved with the delivery of a set of so many job skills in order to permit the products of our educational system to obtain jobs in today's ever-changing world. There are, however, voices of educators who are asking somewhat more difficult questions. Those questions involve the true cost of an educational system driven by budgets and focussed on the provision of skills rather than the development of intellect. Fortunately, those voices are beginning to coalesce into a stronger chorus which is telling us that if we do not concern ourselves with providing more than practical coping skills, if we do not understand education as something larger than simply a narrow training for a job market, then the products of our educational system will lurch towards the millennium unable to cope with a world of rapid change because their jobs skills and life skills so assiduously taught outdate themselves as soon as they are defined. Those voices associated with the delivery of a balanced, sane, and truly liberal education are telling us that if we are driven by the two pillars of budgetary restraint and skills delivery we shall produce a generation of students who are at best replete with skills, but empty of insight; brimming with cleverness, but lacking in vision; overflowing with ambition, but empty of motivation and mission.

It is perhaps unfair to ask ministries that govern education to look beyond budgetary constraints and skills delivery, at a time when those issues are what galvanised popular opinion. It may be, therefore, that principal change and examination of our educational system will come from the independent schools. We are therefore particularly fortunate to have our guest addressing The Empire Club of Canada today, for Dr. Belash is not only the principal and leader of an independent school, but has thought deeply and written widely on the subject of education and independent schools.

Dr. Belash was educated at Oxford University and received her Ph.D. in Latin American Literature from the University of Kentucky. She was the Co-ordinator of the Latin American Studies Program at Vassar College, and then became Vice-Chairman of Academic Affairs and Assistant to the Principals of the Milton Academy in Massachusetts. Dr. Belash became head of Miss Porter's School in Farmington, Connecticut in 1983 and in 1993 was appointed Principal of Branksome Hall, Toronto.

What Dr. Belash has to say about education is important not because she has held posts at distinguished academies, but because her academic career, and her business career speak to a broad and liberal participation in matters ranging from finance to literature. As an academic, Dr. Belash has been the recipient of scholarships and fellowships from Oxford University, the University of Kentucky, Vassar College and Columbia University.

As a participant in the business of education, Dr. Belash has worked as President and/or Director of institutes and schools including the Canadian Educational Standards Institute, the New England Association of Schools and Colleges, the Coalition of Girls' Boarding Schools (of which Dr. Belash was the Founder and Co-Chair), and the National Association of Independent Schools Admissions Committee.

As a writer, Dr. Belash has enjoyed a publications career which included publications on Octavio Paz and Alfonsina Storni, to A Short History of Wills and Trusts, and in the field of education, she is the author of papers and articles, with provocative titles such as "Why Girls' Schools are Still Necessary," "Girls' Schools: Confessions of a Convert," and "Women and Power."

Dr. Belash addresses The Empire Club of Canada on Independent Schools and Independent Thinkers. If we are to survive in a global economy, in an environment where political, economic, and technological change are the order of the day, we will do so only if our educators provide our students with a comprehensive means of doing so. What Dr. Belash has to say today is critical to our educational future.

Ladies and gentlemen, please join me in welcoming Dr. Rachel Belash, Principal of Branksome Hall, to The Empire Club of Canada.

Rachel Belash

It is appropriate that I speak to you about education, because education is in my blood.

I grew up in Wales, with a father who for many years was headmaster of what was then known as a "modern school." That was the place where the children who "failed" the 11-plus exam went. I should explain: at the age of 11 all children had to sit a national examination, the dreaded 11-plus, and how they did really determined their futures.

My father's goal for his students was to stop them from thinking of themselves as failures. So he introduced a great many innovations over the years and shaped a school that gained a reputation for being forward-looking and imaginative. The training children received there opened doors for them that otherwise would have been closed for ever.

So my father had a vision, a strong one. And since I have found myself, strictly against his advice, running schools I have often reflected on how much more freedom we who are heads of independent schools have to achieve our visions. So what I'd like to discuss today are some aspects of independent education in Canada, as reflected in my experience at Branksome Hall. The point I want to make is this: Independence creates value.

I'll elaborate that message by first talking about the benefits of independence, and then looking at the challenges that emerge when schools are not totally free to govern themselves. Finally I'll suggest some lessons that I think emerge from this contrast.

My fellow school heads in this room will agree, as I believe the parents of our students will, that the quality of the educational experience that an independent school can provide is exceptional. There are a number of reasons for this. First of all, independence allows a school to focus on exactly the kind of education that a school wishes to offer and on the type of student who can best benefit from that focussed approach.

Historically, independent schools have come into existence to meet specific needs: Eton, for example, was founded by King Henry VI in 1440 to provide a feeder stream, as we would say nowadays, for King's College, Cambridge. He wanted to ensure that England's gilded youth be given mental, physical and spiritual training before they assumed the positions of power to which they had been born.

John Phillips founded Exeter Academy, New Hampshire in 1781 for the sons of the pious New England Puritans. He was interested in moral education and his goal was that "...the minds and morals of the youth under (the school's) charge will exceed every other care; well considering that though goodness without knowledge is weak and feeble, yet knowledge without goodness is dangerous, and that both united form the noblest character; and lay the surest foundation of usefulness to mankind."

Of course, both King Henry and John Phillips were concerned only with the education of young males. But in 1792 Mary Wollstonecraft published her "Vindication of the Rights of Women." This book was a passionate plea for girls to be allowed to receive an education at least equal to that given to boys. Wollstonecraft had founded a school that had failed because her revolutionary ideas of male-female equality were far ahead of her time. But she persisted in her belief, extremely radical for her day, that "Reason is absolutely necessary to enable a woman to perform any duty properly. Women have minds that demand to be rightly trained."

It took several decades for the first girls' schools to open in England, the United States and slightly later in Canada. But open they did. And these single-sex schools, like Branksome, can indeed focus on the overall development of young women, from their first appearance in kindergarten, their kilts held up by straps, to graduating year when the individual variations on how to wear the uniform and still be legal are quite mind-boggling.

We follow the latest research on learning, on gender differences, on pedagogy, and on female leadership styles.

We seek out ways to give them the life skills of self knowledge, self confidence, public speaking, and leading a healthy life. When we know they are bombarded by the glitzy world of media messages with their ice-pick thin models, we pay attention to their fears and self-doubts about body image, and about their futures. And in addition we give them a first-class academic education that everyone now takes for granted, as being the right of every girl and boy. So independence evolves from a vision, and that vision provides a focus that enables us to do amazing and wonderful things.

The second benefit of independence is that it promotes creativity among the faculty, teachers and administrators alike. The young teachers who apply for our openings nowadays are highly qualified and we have the freedom to hire brilliant people whose route to education has been a different, maybe even an unconventional one. Consequently, independent schools often have unusual teachers, people out of a different mould whose maverick tendencies would fit poorly in environments that demand more conformity. These are the teachers most of our students will remember best. Robertson Davies paints a somewhat exaggerated picture of this in the "Deptford Trilogy": "If a boy can't have a good teacher, give him a psychological cripple or an exotic failure to cope with; don't just give him a bad, dull teacher. This is where the private schools score over the state-run schools; they can accommodate a few cultured madmen on the staff without having to offer explanation."

Once again we are talking male, but I will assure you that the girls' schools I know have their share of colourful, charismatic characters who add spice and salt and sometimes sugar to our lives, and who become living legends among our alumnae.

Independence fosters creativity in programmes as well. A few such programmes I know of are a semester of marine biology and ecology on the coast of Maine or a city term using the resources of the metropolis to experience the justice system or urban planning. Independence allows the development of new courses tailored to fit the interests of a specific teacher or group of students. I myself have taught courses on modernism to extremely literate high school seniors, and on Black literature of the Caribbean to students in search of their roots.

The third important value of independence is that it creates a strong sense of community. Using Branksome as my example, let me say I have never seen parents more involved and committed than Branksome parents. Though we see less of them when their daughters hit ninth grade and presumably discourage their appearance at school, they are present to talk to teachers, to hear about the curriculum, and to anticipate what next year will bring. They come to social events with their daughters, they cultivate relations with other parents, and they serve tirelessly as volunteers in more capacities than I could have imagined.

We try to reach out to them too, most recently with a Parent Satisfaction Survey, so that it is not just those who are vocal who can make their opinions known. We have done some fine-tuning based on the results of that survey, and we shall follow up again next spring. We are also planning a version of that survey for our students. After all, if we, as a woman's institution are encouraging our girls to have confidence in themselves and in their own voices, then we adults must be prepared to hear those voices, colourful though the results may be!

Though I wish they could be even smaller, our classes are small enough to allow a tremendous amount of personal attention from each teacher to each student. This then creates a relationship most closely akin to friendship, which begins early, and grows and develops through the senior school. And when all is said and done, that is the essence of good education: a caring, challenging teacher and a student who responds to that person's knowledge and humanity.

The close community of an independent school, large or small, provides friends for life in our dispersed, complex world. Single-sex schools forge particularly strong bonds, but girls and boys in coed schools also create links that outlast university and career moves and are seen in the alumni/ae networks that provide so much of the strength of our independent schools. I have seen at first hand how much the alma mater counts in people's lives: many an alumnus who will tell you how much of a rebel she was, how much she hated the school's restrictiveness years ago; yet she is now our greatest supporter and the most thrilled with how we have responded to changing times. Much of the strength of our schools grows out of the partnership that we the educators enter into with our families, past and present.

With all these factors in place, it is easy, in fact inevitable, that we pay attention to the whole child. I constantly return to a great educational philosopher, John Dewey, who cautioned us not to neglect the hand and the heart in our emphasis on educating the head. And the habits of the heart are front and central in independent schools. Like John Phillips of Exeter, like Branksome's Miss Scott, our founders were idealists, with a very clear sense of education as an ethical pursuit. Public schools are educating the broad base of future citizenry and the agenda of public educators must be tailored to accommodate a broad range of different moral frameworks. Indeed, the uniformity of conditions necessary for public accountability must perforce raise the valleys but flatten the peaks to create a homogeneous educational landscape. Independence allows us clearly to articulate moral standards and to expect our families will respect them. This is the basis of the newly forged Codes of Conduct at Branksome, that for the Junior School is already in place, that for the Senior School is still in process.

We place a high value on physical fitness and athletics warrant a firm place in our curriculum and schedule. Likewise, when publicly funded schools have to retrench their spending on the arts, we can state, as we do, that education through the arts is crucial to the full development of our students' hands, hearts and heads and we can continue to allocate resources to keep our arts departments flourishing. We can take a stand on the value of community service and require it of our students. Most important of all, we can recognise that discussion of ethical issues occurs throughout our curriculum, both in classes and in co-curricular activities and we can make such discussion a part of our lives.

The sense of community I mentioned earlier reaches beyond the parameters of each individual school. Independent-school educators think of themselves as members of a nation-wide community and take very seriously the issue of quality control, so we have in place an excellent system of peer evaluation. Our evaluation process takes place under the auspices of our own organisation, the Canadian Educational Standards Institute (known as CESI). I'll briefly describe how evaluation happens.

Every seven years CESI member schools are visited by a committee of administrators and teachers from other such schools. This committee uses a comprehensive set of standards to look at everything that happens in the school under review, from governance to adequacy of plant and quality of teaching. Before the committee arrives the school has produced its own self-study, a reflective and extremely valuable process that takes months. Then the evaluating committee spends almost four days on its campus, making sure that what the school is doing is what it has said it does in its mission statement and in the self-study. The committee makes its recommendations, and the school either gets its membership renewed without qualification, or with the understanding that certain recommended improvements will be made. In very rare cases, membership is not renewed at all. CESI's mission is to ensure the highest educational standards possible for all children in its member schools and its process is painstaking and very effective.

Obviously I'm enthusiastic about what independent schools achieve, and I hope I've conveyed that enthusiasm to you. I know, however, that there is more we could do. In Ontario two forces currently curtail our creativity: the top-down control of the Ministry of Education and Training, and the current university admission process. Let's take each of these in turn.

We have many discussions at Branksome, and I hear many imaginative ideas both for individualising a student's path through the school and for expanding the curriculum in exciting ways. What I have noticed is how many times the phrase "the Ministry won't allow it" sidetracks the discussion. Too much time is spent by my colleagues seeking creative ways to best serve our students and still follow Ministry mandates. And the fact is that students are held back and dis-served by a number of inflexible and impersonal regulations.

Some examples have cropped up recently. Why should a Korean girl, strong in math and science, working extremely hard on English as a second language, not be exempted from grade-nine French—for her a third language and a real heart-breaker, since our grade-nine French students have all had years of French already? The Ministry fights exemptions, I am told.

Secondary education suffers too for several reasons. First, this approach to screening students grossly underestimates, or completely ignores, the issue of quality or the lack thereof in secondary education, which all of us should regard as an insult. Second, it creates pressure on students to work for the mark and forget the tough process of learning. None can persuade me it does not result in grade inflation. Third, it completely ignores the fact that grading is a subjective exercise, that each school creates its own standards and its own expectations, and that none can guarantee even that courses at Branksome will result in marks that are just like those at one of the other independent schools.

Why reject or accept our young people according to meaningless criteria? If the universities cannot select their students as they might prefer, why not have some objective measures of academic success? Britain has its O and A levels, the French have the Baccalaureate, the Americans achievement tests and the Advanced Placement, in addition to the SATs. Why don't Canadian universities lobby for a standardised system of national examinations to give them some fair measure of what students have learned? Or may we hope that they will gain independence through privatisation. Among other benefits, they could select the students they want in the way they consider most effective.

Given my own belief in the benefits of independence, I've been interested to see discussions in the public arena about charter schools. Launched in this country in Alberta, these are already thriving in Britain, New Zealand and the U.S. Charter Schools are publicly funded, and access is therefore open to all. But they are independently run, or to quote The Globe and Mail, they are schools which will "leave everything in place and open it up to some change." This is a curiously cautious statement, for I believe that charter schools will develop some of the characteristics of private schools and thereby produce amazing change, provided, of course, that provincial governments give them enough scope.

My purpose today has been to persuade you that independence does indeed create value, from which simple statement comes certain implications: For parents, I would suggest that any family that can should look seriously at independent schools and where necessary explore the financial aid available at these schools. If the expense is too high, keep watching for a charter school in your neighbourhood, and consider that option if you can. I think it will prove an exciting one. If your child remains in public school, then do all you can to make that child's education a partnership between family and school. Both the school and your child will benefit.

For educators and public policy makers and for university governors as well, independent schools offer a model that demonstrably works and works well. The public education system is currently undergoing much change, some probably feel for the better. Others may not agree. But in the midst of what looks sometimes suspiciously chaotic our schools sit, products of idealistic founders, filling specific missions, providing continuity, respecting tradition but embracing and adapting to the post-modern world in which we find ourselves. We are responsible for our own funding which helps us at times to bind the members of our community together. We are relatively small, cohesive, very different places each from each, with different cultures and flavours. What we demonstrate is the self-reliance that comes from being one's own master, or mistress, and the creative problem-solving that blossoms when people have the freedom to seek their own solutions. Our example should be a useful one in this time of educational re-thinking and in the meantime we shall continue to serve our people exceedingly well.

The appreciation of the meeting was expressed by Douglas Todgham, Vice-President, the Canadian Institute for Advanced Research and Third Vice-President, The Empire Club of Canada.

November 25, 1996

A joint meeting of The Empire Club of Canada and The Canadian Club of Toronto

Preston Manning

Leader, Reform Party of Canada

A FRESH START FOR CANADIANS

Chairman: **Stanley Hartt**
President, The Canadian Club of Toronto

Head Table Guests

Alex Squires, Partner, Brenark Securities Ltd. and a Director, The Empire Club of Canada; Gilles St. Laurent, Quebec Executive Councillor, Reform Party of Canada; Wendy Rebanks, Director, George Weston Limited; William Somerville, Counsel, Borden & Elliot; Marnee Stern, Ontario Action Leader, Reform Party of Canada; Julie Hannaford, Partner, Borden & Elliot and President, The Empire Club of Canada; Garfield Mitchell, Director, Community Affairs, George Weston Limited; Patricia Schmidt, Director, Scarborough General Hospital; and Reverend Dr. David Winsor, Senior Minister, Deer Park United Church.

Introduction by Stanley Hartt

Preston Manning

I want, first of all, to thank you sincerely for the invitation to join you for lunch, and the opportunity to speak.

My purpose today is to talk to you about a "Fresh Start for Canada," the need for a fresh start, and how it might be brought about as we approach the 21st century. Members of The Canadian Club and The Empire Club have a keen appreciation of history, so let me begin by reflecting upon some historical "fresh starts" from our past.

Historical Precedents

The history of every country includes periods of change, periods when change is consolidated, periods of stagnation and periods of renewal—and Canada is no exception.

The post-war boom was a fresh start for Canada, as we emerged from the Second World War, more industrialised and self-confident than ever before. At the beginning of this century, following the death of Macdonald and the emergence of Laurier, Canada made a fresh start based on the premise that "the twentieth century belongs to Canada." Confederation itself—the birth of a nation—was a fresh start, ending years of deadlock and stagnation in the parliament of the old colony of Canada, and laying a new foundation for the future.

And then there was one of the most significant fresh starts of them all, in the pre-Confederation days, when government by colonial executives and Family Compacts was replaced by responsible government accountable to legislatures and electors. That fresh start was bitterly opposed by all the defenders of the status quo—which included most of the administrative, business, and newspaper elites of colonial Canada. That fresh start came about when the advocates of constructive change in Canada West (Ontario) led by Robert Baldwin, got together on a common agenda with the advocates of constructive change in Canada East (Quebec) led by Louis Lafontaine. They got together to battle the entrenched defenders of the status quo, to change the governing system for the benefit of their generation, and in the process laid the foundations for the new Confederation which was to come.

Earl Grey, who later as Governor General of Canada gave us the Grey Cup, was the sympathetic Colonial Secretary who encouraged these changes. So it might be said that Earl Grey gave us two cups—the Grey Cup and the cup of responsible government.

Perhaps the reason I find the fresh-start movement that led to responsible government so fascinating and instructive is that it was led by parties formed specifically for the purpose of change—the Reform Parties of Upper and Lower Canada.

Key Questions

In a few minutes, we will have a question and answer period, but allow me to make the transition from the past to the present and the future by posing a few questions of my own to you. Does this country not need a fresh start as we approach the 21st century? At least four times in the last 150 years, our ancestors and predecessors in government have had to make fresh starts of momentous proportions. Could it be that our generation is being called upon to do the same thing, so that our children can have a fresh start for the next century?

With record numbers of Canadians unemployed or under-employed, working at jobs that are not secure, that are not suited to their skills and potential, that do not leave them with enough after-tax income to provide for themselves and their families, with the 1993 election promise of jobs, jobs, jobs now seen as a mockery by at least eight million unemployed, under-employed, or insecure workers, do we not need a fresh start on economic growth and job creation?

With the federal government $600 billion in debt, $100 billion of it added in just these last four years by the Chrétien government, with federal interest payments ($46 billion this year) now the largest single category of federal spending by far, with all this over-spending and over-borrowing translating into oppressive federal taxation, do we not need a fresh start on financial responsibility in Ottawa?

With federal spending on health and social assistance down $7 billion per year since Chrétien took office, with the disposable incomes of families down $3,000 per year since Chrétien took office, with the protection of the obscene MP pension plan a higher priority with the Liberals than CPP reform, do we not need a fresh start on social fairness and social security?

With a 300-per-cent increase in violent crime since Trudeau first promised a just society, with victims' rights groups emerging all over the country, with citizens and businesses now spending billions directly on personal security, does Canada not need a fresh start on public safety through criminal justice reform?

And after 30 years of Liberal/Tory mismanagement of the national unity issue, with a separatist government in Quebec city, with a separatist Official Opposition in Ottawa, with the last referendum on secession coming within six-tenths of one per cent of rupturing the country, does Canada not need a fresh start on the structure and unity of the federation?

Key Questions for the Leaders of Toronto and Ontario

If your answer to any or all of those questions is "yes," let me ask two more questions especially relevant to this audience:

If Canada truly does need a fresh start, what are the people of courage and conviction in Ontario, the largest province of Canada, the elder sister of Confederation, going to do to bring that fresh start about?

More specifically, if Canada truly does need a fresh start, what are people of courage and conviction in Toronto, the largest city in the country, and the leaders of tomorrow from this community, going to do to bring that fresh start about?

Western Fresh-Start Initiatives

In Western Canada, the drive for a fresh start has been under way for almost 10 years—the strong support for free trade, the new interest in the Pacific Rim, the deregulation of transportation and diversification of agriculture, the emergence of the Reform Party, the new vigour in Calgary and Vancouver, the Klein revolution in Alberta and the rejection of traditional federal parties and policies in the 1993 election.

These initiatives are changing the future prospects of our part of the country, and are having some impact on the national scene. But they need to be joined with a strong fresh-start effort in Ontario. In fact, I would go so far as to say that, without your help, energy, and support, the changes required to give Canada a fresh start will not come about with sufficient speed and depth to be successful.

Bringing the Common Sense Revolution to Ottawa

The encouraging thing is that you have already taken a giant step toward giving Canada a fresh start, by supporting the new fiscal and economic strategy offered by Mike Harris and the Ontario provincial Conservatives.

When the Reform Party of Canada first began, it pledged to respect "the common sense of the common people" including the common-sense notion that governments, like individuals and families and businesses, must ultimately "live within their means."

Of course, no province or party has a monopoly on common sense, and we do not claim to have invented common sense. But we do claim to be the federal party best able to tap into it, to understand it, to speak to it and for it, and to bring the common-sense ideas and abilities of Canadians into the task of building a better country.

Mike Harris and his provincial party have understood and taken much the same approach. They incorporated these ideas into a platform—the Common Sense

Revolution, won public support for that platform in a general election, and are now in the process of implementing those ideas as the government of Ontario. In doing so, they overcame initial indifference, media disdain, disrespect, third-party status, low polls, establishment opposition, and disregard (until they were successful) from their own cousins in the old-line Tory establishment. With support from many of you, they overcame!

Balancing the provincial budget as quickly as possible is now a formal objective of the Ontario government, not as an end in itself, but so that the benefits of balanced budgets can be realised. Those benefits are debt repayment, secure financing for social services, and most important of all, consumption-stimulating, job-creating tax relief for the over-taxed people of Ontario.

Next year, six provincial governments will have achieved or surpassed the goal of balanced budgets and be in a position to discuss with their people how best to use future surpluses. It is the federal government—the biggest government of them all—that is farthest away from giving Canada a fresh start on economic growth and job creation because of its failure to balance its budget quickly.

Notwithstanding all the propaganda to the contrary streaming from Mr. Martin's office, the facts are that the Chrétien Liberals have added over $100 billion to the federal debt, incurred a $28.6 billion deficit last year, have reduced spending mainly on the backs of the provinces, have increased tax revenues by $23 billion per year, and will not balance the federal budget until the next millennium.

Because it has been so slow to balance its budget, the Liberal government is incapable of delivering broad-based federal tax relief until some far and distant future date, which is why the Prime Minister admitted here in Toronto six weeks ago that Canadians can expect no broad-based tax relief from his administration. And because the Chrétien Liberals are incapable of delivering broad-based federal tax relief, they are incapable of stimulating the consumer spending and private-sector job creation required to deliver on the promise of "Jobs, Jobs, Jobs."

Reform's Fresh-Start Platform

Since there will be no fresh start on economic growth and job creation from the federal Liberals—just more of the same—a fresh start for the economy is dependent on bringing key elements of the Common Sense Revolution to Ottawa through some other vehicle.

The vehicle for doing that is not the federal Conservative Party. The federal Conservatives had nine years to balance the federal budget and did not do so. In fact, in their last year of office they ran up the largest single deficit ever incurred by any government in Canada. The federal Conservatives had nine years to plan and deliver federal tax relief, and did not do so. In fact, they were responsible for 71 federal tax increases, and brought in the GST, the most hated tax in Canada.

While Mike Harris toiled away in obscurity putting together the Common Sense Revolution, the federal Tories ignored him, even ridiculed him. Only after he was electorally successful did they seek to get on the Common Sense bandwagon.

The vehicle, therefore, for bringing key elements of the Common Sense Revolution to Ottawa is not the federal Progressive Conservative Party. The only vehicle for bringing key elements of the Common Sense Revolution to Ottawa is the Reform Party of Canada and its fresh-start platform.

The fiscal plan contained in our fresh-start platform has three elements:

1. Focus/reduce size of federal government by $15 billion per year.

2. Balance the federal budget by 1999, and achieve surpluses thereafter.
3. Apply the surpluses as follows:
   - Tax relief starting as soon as the budget is balanced, and growing to $15 billion per year by 2001;
   - $4 billion more per year in the priority areas of health and education spending;
   - $5–10 billion as an initial down payment on the national debt, built up by 30 years of Tory and Liberal mismanagement.

The specific federal tax relief measures we propose are:

For all Canadians

- Increase basic personal exemption by $1,500 to $7,900.
- Eliminate Tories' three-per-cent surtax.

For Families

- Increase spousal exemption by $2,500 to $7,900.
- Convert child-care deduction of $3–5,000 per child to a credit.
- Extend this credit to all parents of children 12 years of age or younger, including those who choose to raise children at home.

(This works out to $2,000 per year by year 2000 for an average family of four earning an average income.)

For Job Stimulation

- Cut capital gains taxes in half.
- Eliminate Tory three-per-cent surtax on higher incomes.
- Reduce employers' UI premiums (payroll taxes) by 28 per cent.

The Bottom Line:

$5.4 billion per year in federal tax relief for the people of Ontario, resulting in increased incomes and job opportunities.

A Fresh Start on National Unity

Time does not permit me to elaborate on the other elements of our fresh-start platform.

Let me say that all our platform proposals for a fresh start on strengthening the family, on repairing the social safety nets, on public safety and criminal justice, on accountability of politicians will be but chaff in the wind if this country fails to make a genuine fresh start on the reform of the federation itself.

If there is no fresh start on reform of the federation, leading to new and more positive relations among the provinces and territories and the central government, all our other fresh-start efforts will be crippled by the uncertainties and distractions of national dis-unity. Reformers therefore are convinced that a new vision of Canada and a new federal unity strategy are required if we are to move forward into the next century as a united federation.

The Liberal/Tory view of Canada is the 19th-century, ethno-centric model of a partnership of two founding peoples maintained by a dominant central government. This model has never been accepted enthusiastically by Canadians outside central Canada, or by many immigrants, because it treats the West, Atlantic Canada, and the North as peripheral and relegates 12 million Canadians of non-French, non-English extraction to second-class status. But now that this model is also being rejected by a majority of one of the founding groups, its days are clearly numbered.

Under the Chrétien Liberals, the strategy for national unity (based on the old model) is as follows:

- to maintain the status quo if at all possible (resist change);
- to emphasise special status rather than equality;
- to substitute symbolic change ("distinct society") for real change; and

- to tell the rest of Canada that "distinct society" is symbolic and means nothing, while telling Quebeckers that it means everything.

What has this model and the Liberal/Tory strategy given us? Thirty years of debilitating wrangling, two separatist parties (the PQ and BQ) in Quebec, and two referendums on secession, the last of which came within 50,000 votes of rupturing the federation.

Reform believes that this country desperately needs a fresh start on unity. That fresh start must be rooted in a fresh vision of Canada, and it must offer real change rather than symbolic change. Instead of offering the deceptive rhetoric of "distinct society," let us respond to the desire for real change in the federal system—a desire which obviously exists inside Quebec, but also exists in the rest of the country.

Reform proposes a five-fold response:

- Reduce the size and cost of the federal government, and re-focus its powers on 10 areas of national and international importance.
- Reform federal institutions to make them more democratically accountable and sensitive to regional interests, including the creation of a Triple-E Senate.
- Decentralise other governmental powers, including jurisdiction over language and culture, to give all provinces the freedom and resources to develop as their citizens choose.
- Define terms and conditions which Canada will insist upon if any province should democratically choose to secede.
- And most importantly, offer to all Canadians, including Quebeckers, a vision of a new and better federation so compelling that no one would want to leave.

Earlier I asked the question, "What are the people of courage and conviction in Toronto and Ontario prepared to do to give Canada a fresh start for the 21st century?" On no issue is your response to that question more crucial than on this issue of national unity.

As you well know, voters in Quebec are still polarised between the status-quo Liberals and the separatist parties, the PQ and BQ. But there is a large group in the middle—"discontented federalists" who are increasingly dissatisfied with the status-quo federalism of the federal Liberals and Tories but have no place to go and "soft sovereignists" who really want change rather than separation—who would vote for separation if the only other option was the status quo.

When I visit Quebec, I have been seeking spokespersons and possible candidates who represent a third option—un troisième voie—a third option for Quebec but also a third option for Canada beyond the polarisation of sovereignty (as represented by the PQ and BQ) and status-quo federalism as represented by the Liberals and Tories.

To revert to an historical analogy, I ask, "Ou est Lafontaine?—the leaders and the people, who want fundamental change in the federal system but who do not want to dismember the federal system?"

I am pleased to tell you today that we are experiencing a little history in the making. I am starting to find some Lafontaines. Today, seated at our table, is Mr. Gilles St. Laurent who will be the first Quebecker to seek a Reform nomination in a general election in Quebec. Mr. St. Laurent is a teacher of the law at Laval University. He is a respected barrister and citizen of Quebec City who has taken the lead for us—starting right in the soul of Quebec, in Quebec City—where all 11 federal ridings are currently represented by members of the BQ.

For Gilles and his colleagues to be successful in convincing Quebeckers that there is a third option for Quebec, something other than the emptiness of both separation and the status quo, a reformed federation, a new

Canada in which Quebec will feel truly at home, he and others like him need a signal—a clear and unmistakable signal that the rest of Canada is prepared to support fundamental change in the federal system.

Not a one-sided, top-down constitutional package like the Charlottetown Accord—hatched at a First Ministers' Conference without public support. Both Quebec and the rest of Canada rejected that. Not dishonest double-talk about distinct society, not symbolic change, not administrative tinkering—Quebec is far beyond that. But substantive change for all of Canada—a fundamental rebalancing of the federal and provincial powers that focuses Ottawa on national and international matters, and gives every province the tools it needs, including jurisdiction over language and culture, to develop the unique and distinctive features of their economies and societies.

The West has sent its signal that it wants fundamental change in the federation. It did so in the 1993 election, when it sent over 50 Reformers to Ottawa, almost the same number of MPs as Quebec sent to signal their displeasure with the status quo.

The media and liberal establishment in Ottawa and Quebec have done everything possible to make sure that our signal is distorted beyond recognition or prevented from reaching Quebeckers altogether. In the next election, we will do everything possible to correct that, namely by having the Reform message communicated by Quebeckers to Quebeckers through Reform candidates in Quebec and by inviting Quebeckers to send their own Reformers to Ottawa, not to tear apart this country but to rebuild it.

But there is another equally important signal that Quebeckers—especially those looking for a third option—need to receive.

Just as I have looked and gone to Quebec asking, "Ou est Lafontaine? Where are the spokespersons for fundamental changes to the federation in Quebec?", Gilles and his colleagues will be looking to Ontario, asking, "Where is Baldwin? Where are the Ontario advocates of a fundamental change in the federation? Where are the Ontario advocates of a re-balancing of the powers?"

If they exist, would they be willing to run for the next Parliament? Would they be there to join together with Reformers from Quebec just as Baldwin and Lafontaine did so many years ago; there to meet Reformers from the West already in Parliament demanding reform of the federation; there we hope to be joined by Reformers from Atlantic Canada as well; and there to bring constructive changes to the federal system as a whole and to lay the foundations of the new confederation of the 21st century?

If I might be so bold as to make a prediction on this matter, it would be this. If Ontario comes down hard on the side of the status quo—by sticking with Chrétien or Charest and hoping that symbolic change and the dishonest rhetoric of distinct society will be enough to patch things up until the next crisis—you will be sending precisely the wrong signal to both Quebec and the West, and will be contributing as much to the break-up of Canada as the BQ and the PQ.

On the other hand, if Ontario were to come down hard on the side of reform—reform of the federation; common sense applied to the unity issue as well as the fiscal issue— and if Ontario were to send 50-60-70 Baldwins to the next Parliament, you would tip the balance decisively, away from separatism and the status quo, toward the new confederation of the 21st century.

Conclusion

Now in conclusion, I came here today to urge you to help give Canada a fresh start for the 21st century.

The next federal election will be a battle between the defenders of the status quo—led by Mr. Chrétien and Mr. Charest—and the advocates of reform led by myself and other leaders prepared to join the fray.

So I have come—formally and officially and in all sincerity—to invite you to make Reform the voice and force for constructive change that this country needs at the federal level.

We are all Canadians here—and polite to a fault. We rarely tell each other what we really think. So let me say what some of you are thinking but may be too polite to say.

You may be thinking, many of these Reform ideas are sound—yes, the federal budget needs to be balanced quickly; yes, tax relief is necessary; yes, the federation needs to be reformed—but is the Reform Party of Canada the vehicle? Are they not too regional? Do they not have too many rough edges? Have not the media and the Liberals told us they are too extreme? Where will they get the candidates to represent Ontario? To represent multicultural Toronto? To run a government?

And my response to you is to say, "I hear your objections. I understand your reservations, and no one is more committed than I am to do whatever it takes to overcome them."

To those who would say we are too regional, I say, "Fine, I hear what you're saying—give me quality candidates and representatives from Ontario."

To those who would say we are not broad and inclusive enough, I say, "Fine, I accept that criticism—join us and make us more inclusive."

To those who would say our platform and principles are sound but no one knows about them—all they hear is the Liberal/Tory attacks and the media spin, I say, "Fine, I accept that—help us get the funds to communicate our fresh-start platform directly by TV and publication to 10 million voters before next spring."

I hear your objections and reservations, but I say respectfully, it is as much within your power to remedy those deficiencies as it is within mine.

I have been at this for 10 years. Our goal is a new and better Canada. We are at war with the politics of the status quo. Reform has a base in the West. A solid beachhead in Ontario. Advance operations in Quebec and Atlantic Canada. But we have a long way to go.

Ontario is all-important and we need your help. Give us the tools—the candidates, the funds, the votes—and we will finish the job!

The appreciation of the meeting was expressed by Julie Hannaford, Partner, Borden & Elliot and President, The Empire Club of Canada.

November 28, 1996

Charles Sirois

Chairman and CEO, Teleglobe Inc.

CANADA AND THE GLOBALISATION OF COMMUNICATIONS

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Blake Goldring, Vice-President, National Sales, AGF Management Limited and a Director, The Empire Club of Canada; Rev. Charles Plaskett, Minister Emeritus, Timothy Eaton Memorial Church; David Gluskin, Director, Capital Markets, Goldman Sachs Canada; Colin Watson, President, Spar Aerospace Limited; Juri Koor, Chairman, Call-Net Enterprises Inc.; Al Flood, Chairman and CEO, CIBC; Guthrie J. Stewart, President and CEO, Teleglobe Canada Inc.; Bart Mindszenthy, Partner, Mindszenthy & Roberts Communications Counsel and a Director, The Empire Club of Canada; Bill Keeley, OAC Student, North Toronto Collegiate; C. Edward Medland, President, Beauwood Investments Inc.; George Fierheller, Vice-Chairman, Rogers Communications Inc.; and Peter G. White, Chairman, UniMedia Inc.

Introduction by Julie Hannaford

For The Empire Club of Canada, 1996 has been distinguished by three main subjects. They are technology, telecommunications and finance. We have been addressed by the leaders of industry in each of these three areas, beginning with Bill Gates, President and Chief Executive Officer of Microsoft, to John Hunkin CIBC Wood Gundy, Rob Gemmell of Salomon Brothers, Phil Olson of RBC Dominion Securities, and Rob Grandy of Merrill Lynch, to Bill Catucci of AT&T and David Parkes of Sprint Canada. Not surprisingly, all of these speakers have been united in their focus. If there is a sub-text to each of these speakers' addresses to The Empire Club of Canada it might be defined as "global business at the millennium."

The global concept is of course not new. When we look back at the addresses to The Empire Club of Canada given in the 80s, we see the development of a clear trend toward addressing issues from a global perspective. But by the beginning of the 90s, what was before an interest of businessmen, bankers and academics became a preoccupation. This year the concept of a shrinking world created by an ever-expanding definition of the possible, and a correspondingly reduced view of what is not possible, focusses our concern, our interest, and our imagination on the real meaning of competition, industry, and communications at the millennium. In the telecommunications industry, globalisation and deregulation, both domestic and international, provide the backdrop against which true leadership in the telecommunications industry and indeed in all other industries is defined. What we have learned so far from our speakers in the field of telecommunications and technology is that leadership in the industry emerges not as a result of one single vision, but rather as a result of the ability to shift, redefine, and recombine vision in order to accommodate change.

Hence, Bill Catucci, from AT&T, described for us the ever-decreasing value associated with monopoly, and he did so from the perspective of a former true believer in monopolies. David Parkes, from Sprint Canada, addressed us on the issue of the change to our way of thinking about communications in an age where competition must govern the way in which we understand our consumption of items on the expanding telecommunications menu.

Our guest today addresses us on the issues surrounding intercontinental telecommunications services and carriers. Teleglobe Inc., of which our guest Charles Sirois is Chairman and Chief Executive Officer, is a Canadian public company that is amongst the world's largest intercontinental telecommunications carriers. It links Canada to almost 240 countries and territories and is an international leader in global coverage mobile services through Telesystem Limited, of which our guest is also Chairman and Chief Executive Officer. It maintains a significant presence in the personal communications services area, both domestic and foreign, and in the international telecommunications and mobile satellite telecommunications sector, as well in the communications and media sector.

Teleglobe, along with every other intercontinental telecommunications carrier, is poised on the brink of dramatic change and rapid development, and we are therefore privileged to have Mr. Sirois address us at a time when these changes shall dominate our news and change the way we think about communications.

Mr. Sirois brings to the podium of The Empire Club of Canada much more than news about intercontinental telecommunications service delivery. Mr. Sirois addresses The Empire Club of Canada as an example of leadership and vision in the 21st century. His biography is a story of excellence, determination, and unshakable belief in Canada and Canadian enterprise. Mr. Sirois took an MBA at Lavalle University. Before he graduated, Mr. Sirois had a choice of career opportunities which included the United States of America. Mr. Sirois chose Canada. He began work with what has been described as an absurdly small paging company, which had 300 subscribers and annual revenues of less than $200,000. It has been said that where others saw an insignificant little nothing of a company, Mr. Sirois found a window into a fascinating and fast developing new industry. Having done so, Mr. Sirois parlayed that small 300-subscriber business into a company known as National Pagette Limited and National Mobile Radio Communications Inc. In 1987 these companies merged with Bell Cellular to form BCE Mobile, where Mr. Sirois was Chairman and Chief Executive Officer from 1988 to 1990.

Mr. Sirois sits on the board of directors of Hydro-Quebec. He is Chairman of the 1994–1999 Fundraising Campaign for the University of Quebec at Montreal. He received the Order of Canada in 1994. He is a founding member of the Washington-based Global Information Infrastructure Commission. He is a member of the Federal Advisory Council on the Information Highway. He is the author of a book on the Information Highway, entitled “The Medium and the Muse.” Mr. Sirois’ leadership in the field of intercontinental telecommunications is defined by excellence and vision in the field of telecommunications, by a strong and passionate belief in the creativity of Canada and the future of Canadian enterprise and a breathtaking list of achievements.

I am also pleased to report, for those of us who are perhaps intimidated by the new language of telecommunications, by the spectrum of choice and change in the industry, and for those of us who are haunted by the fear that someone else will discover that we have not yet learned how to programme our VCR, Mr. Sirois is our friend. As one of the masters of the electronic highway, Mr. Sirois will nevertheless admit the following: “I have never had a computer, and I don’t know how to use one. All the people who work with me carry around their agendas and pocket calculators. I don’t know what they gain by that, especially if their batteries go down. I keep my work schedule in an old fashioned book, and if it changes I write in the new items.”

Ladies and gentlemen, please join with me in welcoming our guest today, who is able to define leadership in international telecommunications, without becoming its slave, Charles Sirois, President and CEO of Teleglobe Canada.

Charles Sirois

Thank you Julie.

Ladies and gentlemen, what does it mean to be global? And, how do we get there?

In many ways, we’re already there and just don’t notice. Like a crystal-clear line to Europe in milliseconds. It’s an age of many miracles and wonders, not just the long-distance call.

In other ways, we’ve barely started on the journey. In so many parts of the world, it’s still a traditional village not a “global village.” Too often we forget that half the world’s population, some three billion people or about 100 times the population of Canada, has never made or received a telephone call!

However, ladies and gentlemen, I can say that 1997 will bring a tide of change in telecommunications, as it becomes truly global, as it is supposed to be.

The global communications industry is in the midst of the most profound changes in its history—changes driven by the twin forces of competition and technology. As competition redefines our operating environment, a technological revolution is re-inventing the possible. The net result is change: sweeping, fundamental, and irrevocable change.

1997 will be the year when the Information Highway meets the Information Skyway—when new satellite systems are launched to deliver dial tone and e-mail, messaging and position finding to every place on the earth's surface.

We'll see many more millions of people using the Internet—a truly global technology where geography simply does not exist to the user, and where the distinction between users of Netscape Navigator and of Microsoft Explorer is far more significant than any distinction between, say, North America and Asia.

Among the key dates ahead is February 15, 1997. This is the date on which the World Trade Organization negotiations on basic telecommunications services reach the deadline for an agreement. The WTO will help ensure truly international investment and ownership of global enterprises, and set ground rules for regulation agreed to by member countries.

Whatever happens in the WTO negotiations, the trend to the new mega-carriers is unstoppable. We are in the midst of a tremendous wave of mergers, alliances, partnerships, contractual arrangements, to form new global alliances.

Just in the past few weeks, we've seen British Telecom buy the American carrier MCI to form a new giant. AT&T has already formed the World Partners Association, another of the three leading global carrier alliances. Our friends at Sprint have put together the Global One alliance with Deutsche Telekom and France Telecom.

AT&T is also about to re-enter the local American markets it left behind to the "Baby Bells" years ago, offering integrated local, long-distance and overseas services. Meanwhile, those not so baby-size regional Bell operating companies are making their own plans for global service, including long-distance and overseas. They also plan mergers. By the first quarter of 1997, we'll see Pacific Telesis and SBC Communications join forces, as well as Nymex and Bell Atlantic in the East.

For some, being global is about being very large. But I am not convinced that big is best. I see the winners of the future as the better players, not the bigger players. Another path to being truly global is through flexibility and adaptability. That path means accessing the markets where and when we have the greatest value to offer. It means keeping open a wide range of options for competing effectively, including global financing and alliances. And it means being able to move rapidly on opportunities.

The opportunities are certainly there. Global telecommunications is a booming business today, growing at good rates in the developed world and at phenomenal rates in the rest of the world. Demand for ATM multimedia capacity that allows for affordable, real-time, multimedia communications services involving the simultaneous transmission of voice, text, data, and images is especially strong in developed countries, while the drive for dial tone is a powerful force in emerging economies.

In China, for example, there are only two telephone lines per 100 people, compared to Canada and the United States at the other end of the spectrum where there are 60 lines per 100 people. In many developing regions the existing networks are obsolete.

The cost of bringing modern wired telephone service to the whole planet is U.S.$3 trillion according to the International Telecommunications Union, an impossible amount! The pent-up demand for telephone service is extraordinary, however, as it can take a few years to have a phone installed.

The quickest and most cost-effective way of providing new services in these parts of the world is through a combination of wired and wireless services. Hand-held and fixed-site satellite phones will supply citizens in developing countries with a telephone for the first time in their lives. Mobile satellite service networks are the solution for these places where a conventional land-based system or cellular-type infrastructure is not economical.

At one time telecommunications were seen as a luxury. By the beginning of the next millennium highly reliable, widely available telecommunications will be recognised everywhere as a vital economic underpinning for job creation, for attracting and keeping investors from outside the country and for participating in global electronic trade and commerce.

According to a recent Gallup survey, nine out of 10 senior executives from the world's largest companies are convinced that telecoms will become more important to the expansion plans of their organisations over the next five years. While among the 50 million or so Internet users, the cry for greater bandwidth is deafening.

With all of these changes occurring, it's a great moment for a global regulatory structure in telecommunications. Governments from around the world have talked about the issues. The World Trade Organization had a round of negotiations that was suspended last spring without agreement—and was extended to February 15, 1997. Issues have been clarified since that time. All players know what's on the table, what cards are in their hands, what they will have to trade off and what's to be gained for their concessions. Member governments everywhere are putting their final positions together as we speak. The WTO ministerial meeting begins in Singapore on December 9.

What does Canada have to gain from all of this? What will Canada have to put on the table to make it happen? Like every country in the world today, we have a predominant interest in ensuring the best possible telecommunications infrastructure, to be reliably connected to each other and the world. This is far and away the most important interest that Canada has. And it is best served by establishing a competitive, open Canadian market, where Canadian and foreign companies compete to provide the best service options at the lowest cost.

As for "national champions," becoming global means less national and more champion. It means an end to domestic protection and instead a thrust toward international free trade and investment. That means, for example, ending monopoly on Canadian overseas facilities.

How does Teleglobe feel about this? We asked for it!

Our position, which we made clear to the government more than a year ago, is that we're quite prepared to give up one of the last vestiges of monopoly in Canada. The national monopoly is the trailing edge of regulatory options. The sooner we all leave it behind and become something else, the better.

I've been asked, "Isn't this like turkeys voting for Thanksgiving?" I suppose it's a reasonable question. In fact, I really don't have a large file of quotes of CEOs calling for an end to their company's profitable monopolies! The answer is that we will be sitting at the table, not on it, and we will have much to be thankful for. Let me assure you that this bird can fly.

Teleglobe is the world's sixth-largest intercontinental carrier, and we have the second-largest North American-based global network after AT&T. We've been enjoying steady growth in revenues and profits for years, while reducing international rates just as steadily. We have a global strategy in place, and it is already working. We are concentrating on the high frontier and the leading edge, where the growth opportunities can be found.

In the first nine months of 1996 the non-Canadian portion of Teleglobe's revenues rose by over 250 per cent, and the pace is still picking up. We are now in the American market, where the FCC has granted us a facilities license. We're competing every day with AT&T, Sprint, MCI and hundreds of resellers, and winning new business all the time. Our approach is focused on business customers and ethnic communities, and on selling capacity to other carriers and resellers.

In the U.K., we're a reseller, and we've applied for a facilities license, which we expect to get within the next month. And we're not stopping there. We see great opportunities in Germany, the second-largest telecommunications market in the world, and elsewhere in Europe as the European Union opens that market. We have already laid our Information Superhighway across the Atlantic. It is the Globesystem Atlantic, a fibre optic ATM link with mind-numbing multimedia capacity, that joins Canada and the United States to the U.K., Denmark, Germany, and Iceland. We were the first with such a system, but most certainly not the last.

We don't have to dominate new markets when we enter them, to feel the impact on our bottom line. If we get just six per cent of the U.S. market, for example, Teleglobe will double in size.

Also, we're among the leaders in building the "information skyway"—the next wave of global commercial satellite communications systems. Last August, we received an affirmation of this strategy from the bond markets, when our ORBCOMM satellite venture raised $170 million. That completed the financing for this two-way global paging system. Two satellites had already been launched, and the rest are now being built by our partner, Orbital Sciences Corporation. We're on target to put 28 satellites in low-earth orbit by the middle of 1998. With applications that include messaging, e-mail, location finding, and others, over 70 million potential users for ORBCOMM have been identified worldwide.

This will be a diverse and competitive market. There are many more satellite systems following on behind us. Among these, Teleglobe is also a founding partner with TRW in Odyssey. This is a constellation of 12 larger and more expensive satellites, launched up to medium-earth orbit, that can handle voice as well. We expect to have Odyssey in place by the year 2000.

While the telecommunications industry has been moving very rapidly to position itself for a truly global market in communications, the regulatory framework has been slower to adapt. It is still a national matter, and will remain so. But the World Trade Organization in its current round has the potential to accelerate the establishment of a global trading and investment regime and regulatory guidelines that are fair and transparent to all concerned.

We'd let go of the monopoly gladly to gain wider access to world markets. I like to say that the best way to be competitive is to compete and we can compete. Canadians already benefit from some of the lowest international telecommunications tariffs in the world. Still not convinced?

We are already competing in the U.S. market, against the giants of the industry, and the volume of U.S. outbound traffic on our network is growing daily.

So yes, we are prepared to see new players come in to our Canadian market. Let them compete with our innovative services like Canada Direct, international toll free, and frame relay.

And as my friend Juri Koor, Chairman of Call-Net Enterprises, the parent company of Sprint Canada, will readily agree, in the case of Sprint we're talking real competition! He is here at the head table with me today. But it's worth noting that in Canada, Sprint is currently both a customer and a competitor of Teleglobe. Also, in the Microcell venture Juri and I are partners. This is not so unusual in today's industry.

Relationships are not monolithic. The market is very good at identifying the most efficient options for any part of the telecommunications value chain.

As for our main Canadian customers, the Stentor Alliance, clearly they should be allowed to get into the overseas market as well. This is a sensitive issue for

Teleglobe, however, since our company has evolved over the years, largely as a result of government policy, to be a unique and highly specialised component of the industry. Over 80 per cent of our present traffic comes from Stentor, and if it were suddenly shifted away from Teleglobe to other facilities, there would be a massive amount of stranded investment. Therefore, this change should be delayed, until their own monopolies are opened, and are demonstrated to be effectively competitive.

There's something else we have to let go: restrictions on foreign investment in the Canadian industry. Are we really ready to do this?

Hold on. Let's just think about this for a minute. I suppose we would have to let go of being "protected" from a wide range of options for capital investment that could decrease our cost of capital and ensure we're on an equal footing with our global competitors in a capital-intensive business. And if this happens it would also increase our scope for strategic alliances in a very fast-moving industry. And if this long-standing protection is removed it would expedite our entry into new markets. OK, we agree!

The first order of business is to abolish the Teleglobe Act, and put all Canadian carriers under the same legislation. It no longer makes sense to have rules that prohibit any ownership by a foreign carrier in Teleglobe, nor should there be limits on the investment of domestic carriers in Teleglobe.

Regarding foreign ownership, we have supported a proposal to raise the limit on foreign ownership in any Canadian carrier, including Teleglobe Canada, to at least 49 per cent, in the context of a WTO agreement.

But we're not particularly dedicated to even that limit.

Ultimately, we see most of the remaining capital restrictions on foreign investment in telecommunications becoming unnecessary. Being global, the issue is not the source of capital, but rather its behaviour. Governments should not give up their controls over behaviour. In fact they have much to say there. But by giving up jurisdiction over the source of capital, they can ensure that we have a lot more of it around, doing useful things for Canadians, and financing Canadian ventures that are expanding rapidly as they shrink the world.

Meanwhile, as for Canadian domestic barriers to end-to-end ownership, such as the 33-per-cent limit on total shares in Teleglobe that can be owned by any Canadian carrier, these must also go the way of the dinosaur. There is no reason for Teleglobe to have more restrictions on its domestic ownership structure than any other carrier in Canada.

New international competitors like AT&T have already set up their model of end-to-end service. It is available in the United States and will soon be on offer here. And why not? If the market decides that integrated packages are where it's at, more power to them and to us if we follow that option. But not, of course, if we don't even have that option.

So, to conclude, ladies and gentlemen, if you show me a telecommunications CEO who has it all figured out, who has a three-year game plan based on a detailed vision of how the industry will unfold, then I will show you a Board of Directors with the grim job of voting on a major executive severance package on its next agenda!

We are at a time when industry and governments need the wisdom to accept that there is no single or ideal path to globalisation; that they must make many options possible for the industry. We need to stop trying to control the future and instead increase our adaptability to emerging reality.

I think the path to being global requires letting go of what you cannot keep, like a national monopoly and investment restrictions. It means keeping your options open, taking them at the right moment and reaching for what you have to gain, which is the world. And altogether, ladies and gentlemen, I see 1997 as the year we become global. I'm very confident that it will be an extremely positive step forward for Canada, as well as for Canada's national overseas carrier.

Thank you.

The appreciation of the meeting was expressed by Blake Goldring, Vice-President, National Sales, AGF Management Limited and a Director, The Empire Club of Canada.

December 2, 1996

The Hon. Douglas Young

Minister of National Defence and Veterans Affairs

CHALLENGES AND CHOICES

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

LCol. Peter Hunter, C.D., The Governor General's Horse Guards and Chairman, Reserves 2000; Rosemary Spears, Journalist, Toronto Star (Ottawa Bureau); Col. D.E. Rive, C.D., Commander, Toronto Militia District; Professor R.A. Spencer, President, The Atlantic Council of Canada; Libby Burnham, Q.C., Counsel, Borden & Elliot; Garfield Mitchell, Director, Community Affairs, George Weston Limited; MGen. Bruce J. Legge, C.M.M., C.M., K.STJ., E.D., C.D., Q.C, Former Chief of Reserves, a Past President, The Empire Club of Canada and Honorary President, The Royal Commonwealth Society of Canada; The Hon. Donald S. Macdonald, P.C., C.C., Former Minister of National Defence; LCol. James A. Boyle, C.D. President, Army Cadet League of Canada (Ont); Major The Rev. Rick Ruggle, Reserves Training Officer, Canadian Forces Chaplain School and Centre, Base Borden; MGen. Bryan Stephenson, Commander Land Forces, Central Area; MGen. Reg W. Lewis, C.M.M., C.M., C.D., Former Chief of Reserves, Former International President, The Reserve Officers Confederation of NATO and a Past President, The Empire Club of Canada; Sergeant Rita Arendz, Bandmaster, The Queen's Own Rifles of Canada; and The Hon. Barnett Danson, P.C., Q.C., Former Minister of National Defence, Honorary Director, The Empire Club of Canada and Chairman of the No Price Too High Foundation.

Introduction by Julie Hannaford

In the world of business, there is a clear-cut set of rewards for one's achievements. That set of rewards consists of profit, promotions and often publicity. In the world of the professions, there is an equally dazzling set of rewards associated with excellence. They are often promotion, peer recognition and sometimes profit. (As a lawyer, I am able to say with confidence that the word "sometimes" always has to modify the word "profit").

What then, one might ask, are the rewards for doing well available to a politician. Our guest this evening, The Honourable Douglas Young, Minister of National Defence and Minister of Veterans Affairs, provides the answer. If the measure of success of any minister can be measured by his or her ability to successfully manage a crisis, then our guest this evening provides the perfect example. And, his appointment as Minister of National Defence and Veterans Affairs on October 4, 1996, illustrates that the reward for a job well done in cabinet is more often the awarding of an even greater challenge than what was met in the past.

One has only to scan the headlines made by Minister Young in his portfolios for Human Resources Development and Transportation to obtain a flavour of both the challenges and the mettle with which they were met by our guest. In August, 1996, The Globe and Mail reported: "When Human Resources Minister Doug Young moves, duck. Things happen." Mr. Young's career, and the development of his ability to "make things happen" began in New Brunswick, where the Minister received his law degree at the University of New Brunswick. Mr. Young entered the New Brunswick legislature in 1978, and was re-elected in 1982 and in 1987. He was first elected to the House of Commons in the 1988 general election, as Member of Parliament for the New Brunswick riding of Acadie-Bathurst. As many of us know, Mr. Young was the Minister of Transport, and Minister of Human Resources Development before he was named Minister of National Defence and Minister of Veterans Affairs. Our guest's appointment to Minister of National Defence and Minister of Veterans Affairs occurred at a time when the role of the Department of National Defence occupies a focus at least equal to, if not greater than the interest and focus occurring in wartime. This focus is made all the more complicated when we reflect upon the diffuse nature of the concerns of the Department of National Defence. It has been said (by the former Minister of National

Defence, and a faithful Past President of The Empire Club, Barney Danson,) that in the Cold War, we at least had the advantage of having one definable enemy. Now, we don't have enemies, but rather issues to address, problems to solve, and alliances to maintain. This requires versatility and great adaptability. When our guest assumed the portfolio of National Defence and Veterans Affairs he was confronted with a menu of issues, problems, and alliances, for immediate solution, resolution, and maintenance. None of them could wait. And so, at the same time that the inquiry into Somalia was to be dealt with, so was the review and implementation of the Special Commission on the Reserve Forces.

There are no shortages of adjectives or adverbs for the nature of the task set before the Minister. Having been confronted with the list of issues before him, Minister Young began to articulate policies and principles, virtually within the first few weeks of his appointment. Accordingly, it is with great pleasure that The Empire Club of Canada welcomes our guest to the podium this evening.

Please join with me in welcoming our guest of honour this evening, The Honourable Douglas Young, Minister of National Defence and Veterans Affairs.

Douglas Young

In every walk of life, in every profession, in every business, challenges are faced and choices are made continuously.

There is no simple way to assess what the 21st century holds for Canada, nor what the challenges will be for the Canadian Forces, nor what the international dynamics will be over the next decade, particularly on issues of peace and war. The totally unforeseen changes that have occurred in the past 10 years are a guarantee of that.

It is possible to identify the developments that are likely to shape the challenges for global security in the initial years of the next century. There is plenty of evidence of geopolitical manoeuvering with the United States, Russia, China and the European Community, among others, re-evaluating their roles in an uncertain world.

The United States will no doubt remain the pre-eminent global power for some time to come. Yet efforts to balance its budget and pressures from domestic isolationist forces may combine to limit America's ability to remain fully engaged in critical regions. Russia's future course is unclear, as it copes with enormous political and socio-economic evolution precipitated by communism's collapse. China is at a crossroads. With its massive population, high-growth economy, and Hong Kong absorbed, China will certainly play a growing role in the world's affairs. The European Community is an example of dramatic change and unprecedented co-operation and accommodation.

There is relative understanding in relations among the great powers, but a number of violent conflicts continue to pose serious challenges to peace. The risk of conflict between states will continue. Deep-seated territorial and ideological grievances persist in volatile regions like the Middle East, South Asia and the Korean Peninsula. The world must remain ready to meet these dangerous challenges.

Peacekeeping and peacemaking operations will often be needed in the developing parts of the world where there is a collapse of authority and political, social and military chaos. The United Nations, many hope, will remain the source of international legitimacy; the place where the world seeks to work out problems of instability and aggression. But it must evolve if it is to provide a framework for meeting the challenges for action in response to the threats to security in various regions of the world.

The alliance structures to which we are committed partners are also changing to meet the challenges of the new global realities. For example, it is widely accepted that some of our former adversaries from the Warsaw Pact will formally become our allies as part of NATO. Who would have believed that 10 years ago?

So the question is: How will the Canadian Forces meet the challenges of the 21st century? In our view, the choice is clear—we must retain multi-purpose, combat-capable forces to carry out the essential mission of defending Canada and contributing to international peace and security. The choices we must make for the Canadian Forces will build on the historic foundation of loyal, dedicated and professional service that the members of the Canadian military have provided since before Confederation.

In the aftermath of the Cold War, we no longer foresee any worldwide conflict, but we must deal with instability in the world. In the face of our country's fiscal situation, our challenge is to implement a major downsizing initiative of the Canadian Forces while continuing to invest in the long-term viability of the Forces during a period of extremely intense operational activity.

We are in the second year of a comprehensive five-year programme to restructure the Forces, downsize headquarters, reduce infrastructure and improve management practices to provide Canadians the best value for their defence dollars. In 1994, we had some 50 bases and stations, far too many for the size of our military. By 1998, the number will be reduced by more than half to 24. We are facing the challenge of reducing our costs—to cut the defence budget from over $12 billion in 1994 to $9.2 billion by 1999—and to concentrate our resources on the "sharp end," that is on our operational forces. Our objective is to strike the best possible balance between the operational and support elements of our defence activities.

There are those who suggest we should make different choices. They would have our military relegated to a force made up of "boy scouts with an attitude." I believe that would be a grievous error. If the Canadian Forces are to meet the challenges of the 21st century and carry out the roles mandated by the government, roles that Canadians support, they must be properly trained and equipped.

Throughout the 20th century, our allies have depended upon Canada as a reliable, contributing partner to the preservation of international peace and security. The courage and commitment of our men and women, our equipment, training and skill have enabled Canada to participate with the most modern and professional armed forces in the world. The huge reservoir of international prestige we have built up over many years must not be diminished. Canada has a solemn obligation to our men and women in uniform. We must make a choice. There is no question in the minds of most Canadians that the choice must be to maintain our role and prestige as a G7, NORAD and NATO nation.

That choice means providing the Canadian Forces with the right equipment and appropriate training. Technology is changing rapidly. Communications, computers and information management are altering command and control functions, allowing military forces to provide a more rapid, effective and flexible response. We must make the choices needed to maintain our multi-purpose, combat-capable forces.

That is why the Canadian Patrol Frigate is the warship of the future for the navy and why we refurbished the four "Tribal" class destroyers. In buying 12 modern Maritime Coastal Defence Vessels, to be crewed primarily by Reservists, we are responding to the challenges of coastal defence and the Total Force concept. We have to purchase a new shipborne helicopter to replace the Sea King. We must choose an aircraft that is not only robust and capable but also affordable. We need to determine how best to support our ships at sea and to provide a sealift capability for troops, equipment and supplies in multilateral operations. And as a G7 nation, as a member of NORAD and NATO, as a country with vast maritime areas of responsibility, we must decide how we can properly safeguard Canada's sovereignty with a navy composed solely of surface ships complemented by the air force's

Aurora and Arcturus maritime patrol aircraft. We must choose carefully because our decision will have implications for the country for years to come, because if we allow our submarine capability to lapse, we would have great difficulty re-establishing it.

Our soldiers need the proper equipment to do the job. To meet this challenge, we have chosen to embark on a number of projects. We are acquiring 203 new Coyote armoured reconnaissance vehicles. We are also purchasing new armoured personnel carriers and rebuilding over 1200 currently in service. As I announced recently, we will also spend more than $500 million over the next five years to purchase equipment that will make a real difference to the troops, including:

- new helmets;
- new combat clothing, improved fragmentation jackets and other items of personal equipment;
- new land-mine detection systems;
- refurbished turrets for the army's Leopard tanks incorporating a thermal-imaging system and modernised fire-control system;
- an off-the-shelf Land Force Command System, which will allow commanders to better control their forces during operations; and
- new grenade launchers.

We are also taking important steps towards ensuring that Canada's air force has the equipment they need. We have received 60 of the 100 new Griffon utility helicopters that are replacing three fleets—the Kiowa, Twin Huey and Iroquois.

We stated our intention to replace the Labrador helicopter in the 1994 Defence White Paper and we announced the decision to proceed with this project in November 1995. We have now taken the next step—releasing to industry a Request for Proposals for Search-and-Rescue helicopters. Search-and-Rescue represents one of the greatest challenges for the Canadian

Forces and their equipment. Canada is a vast country with a varied geography, an unpredictable and harsh climate with one of the longest coastlines in the world. Canadian Forces Search-and-Rescue personnel go about their work with quiet professionalism, responding to some 450 incidents a year. They are directly responsible for rescuing more than 200 people annually. For Canadians, a national Search-and-Rescue service is an absolute necessity.

We will continue to maintain the air force's CF-18's combat capability. And we will continue to provide for our strategic airlift support requirements.

There's no denying that all of this equipment is expensive. But the government knows that and has allowed for it in the budget. We have an obligation to spend the taxpayer's money wisely. That's why, wherever possible, we are choosing to buy "off-the-shelf" commercial technology, to upgrade equipment now in our inventory or, in some cases, to consider purchasing used equipment.

These are just some of the choices we are making to ensure that the Canadian Forces can effectively meet the challenges of a rapidly changing global society. Many other initiatives are either planned or under way. They include moving ahead on restructuring the Reserves, reforming the military justice system and generating a renewed, dynamic defence organisation. We have one goal: to enable the Canadian Forces to carry out their essential mission of defending Canada and contributing to international peace and security.

Of course, no matter what equipment you have or what policies you implement, it all comes down to the quality of the men and women of the Canadian Forces. They are our most important resource. In the two months since I've been Minister of National Defence I've been impressed, and moved, by the dedication, courage and professionalism of the Canadians who wear the uniforms of the army, air force and navy so proudly. No matter what challenges we face, no matter what choices we make, we must ensure that we do what's best for the men and women of the Canadian Forces and for Canada.

Our vision of the future is that of a revitalised Canadian military made-up of multi-purpose, combat-capable forces, both Regular and Reserve, ready to carry out any of the operations entrusted to them.

The Canadian Forces of tomorrow will be led by a leaner, more streamlined command and control structure that will be focussed on the task of producing the best possible combat forces in the most efficient and cost-effective manner possible.

Our defence policy is founded upon our hopes for, and understanding of, a changing world and the values Canadians wish to protect, promote and perpetuate. At its heart is the example set by thousands of men and women who, for over 130 years, have provided loyal and courageous service to Canada and the world.

The appreciation of the meeting was expressed by The Hon. Barnett Danson, P.C., Q.C., Former Minister of National Defence, Honorary Director, The Empire Club of Canada and Chairman of the No Price Too High Foundation.

December 5, 1996

Carol Stephenson

President, Stentor Resource Centre Inc.

THE NEED FOR COMPETITIVE EQUITY IN THE CANADIAN TELECOMMUNICATIONS INDUSTRY

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Ed Badovinac, Professor of Telecommunications, George Brown College and a Director, The Empire Club of Canada; Pasha Peroff, OAC student, Lawrence Park Collegiate; The Rev. Dr. John Gladstone, Minister Emeritus, Yorkminster Park Baptist Church; Lis Angus, President, Angus Telemanagement; Deidre McMurdy, Business Editor, Canada AM and CTV; Yves Desjardins, Sicilianio, Vice-President, Corporation Positioning and Development, Bell Mobility; Raymond Protti, President and CEO, Canadian Bankers' Association; Marcia McClung, President, Applause Communications Inc. and a Director, The Empire Club of Canada; Patrick Daly, Executive Director, Canadian Business Telecommunications Alliance; Fred Williamson, Vice-President, Marketing, Mackeral Interactive Multimedia Inc.; Jim Chestnutt, Vice-President, Eaton's School of Retailing; and Josee Goulet, Vice-President, Product Development, Bell Canada.

Introduction by Julie Hannaford

This meeting of The Empire Club of Canada is the last meeting of 1996, which will close with The Empire Club's Annual Christmas Luncheon, at which time The Empire Club of Canada celebrates the end of the year and looks forward to the upcoming year 1997. This meeting is also the fourth in the series of addresses on telecommunications, which began with an address by Bill Catucci from AT&T, and was followed by an address from David Parkes of Sprint Canada and Charles Sirois of Teleglobe Inc. The organising theme for the series of addresses as we all know was "Competition—Who Needs It?" In some ways, the question was a focus for the targeting of the alliance represented by our guest today. As many of you know, Stentor is the alliance of provincial telephone companies which until recently governed the delivery of our telecommunications services in Canada. The advent of competition in telecommunications has brought with it a heightened focus on the telecommunications alliance, Stentor, represented by our guest today. For those of you who have been at the telecommunications meetings that preceded today's meeting, you will know that Stentor has become, in a way, the stalking horse for telecommunications talk in Canada as we move into an increasingly heightened competitive environment.

If we look at what all our speakers have been saying about competition today, what we have learned is that competition has a deeper meaning than a simple race for market share. What we learn further is that if we fail to recognise that competition means more than winning domestic market share, we shall be eclipsed by market forces that will make losers out of market share winners. What each of our speakers in the telecommunications series has pointed out, from Bill Catucci, to David Parkes, to Charles Sirois is that the competitive challenge exists beyond our national borders, and indeed beyond our international borders. The face of competition at the millennium will be a global face and our thinking in regard to that competition must be global, not local.

Thus, our speakers in the telecommunications series have spoken as much about alliances, as they have spoken about their competitors. If we needed a graphic illustration of the importance of alliances, we had that last week when Charles Sirois noted that Juri Koor, the President of Callnet, and one of Teleglobe's fiercest competitors, also participates in an alliance with Teleglobe through one of its subsidiaries for the purposes of consolidating certain aspects of market share.

At the risk then of introducing further buzz words into an industry already replete with buzz words like convergence and consolidation, it is clear that one of the sub-texts of every discussion on telecommunications relates to "strategic alliances."

If strategic alliances constitute the critical path to competition in a global telecommunications environment, then the history of Stentor is much more than a discussion of the virtues and vices of monopoly. Stentor, as an alliance of Canadian provincial telephone companies which has been operating in Canada in one form or another since the inception of telephone service, provides us with a means of understanding the virtues and vices and the challenges associated with a strategic alliance growing through the rapid developments and changes in the telecommunications industry. The operation of Stentor as an alliance of telephone companies, some large, and some small, may well be the best study piece for how to manage a strategic alliance. Our guest, having worked with, and through such strategic alliance is eminently qualified to educate us in this regard. Carol Stephenson has been in the telecommunications business for almost a quarter of a century. After graduating from the University of Toronto, Ms. Stephenson held a number of management positions with Bell Canada, before she was appointed General Manager of Operator Services for the Bell Ontario Region in 1988. In 1991, Ms. Stephenson assumed the position of Assistant Vice-President of Rates and Policy for Bell Canada, and then in 1992 she was appointed Vice-President of Logistics for Bell Canada. Our guest joined the Stentor Resource Centre in 1993 as Group Vice-President of Rates, Regulatory Matters and Strategic Planning. Ms. Stephenson was appointed President and Chief Executive Officer of the Stentor Resource Centre on July 1, 1995. In the same year she was an Adjudicator for the 1995 Financial Post/Arthur Andersen 50 Best Managed Private companies. She has served on the Board of Directors of the London Regional Children's Museum with the London Women's Network, and has worked as Corporate Campaign Manager for the United Way. She is Vice-Chair of the Board of Directors of the Information Technology Association of Canada, and a member of the Planning Forum of Ottawa and Canadian Women in Communications. In the same year that our guest was appointed Chief Executive Officer of Stentor Resource Centre, she was named Woman of the Year by Canadian Women in Communications. Our guest, is therefore not only an expert in the management and development of strategic alliances, and in the field of regulatory issues surrounding the telecommunications industry, but she has served as both an example and a pioneer for women in telecommunications. It is therefore a particular honour to have our guest address us today.

Ladies and gentlemen, please join me in welcoming Carol Stephenson, President and Chief Executive Officer of the Stentor Resource Centre Inc., to The Empire Club of Canada today.

Carol Stephenson

Good afternoon. I'm delighted to be here.

I'd like to begin with a story about the scientist Albert Einstein, who did so much to shape the world of today. During his years at Princeton University, Einstein taught a popular physics course. Each year, the questions on the final examination were exactly the same ones he had used the year before. One of the other professors got wind of Einstein's practice. He decided to go to the great man's office to urge him to change his approach. "It's not the right way to make up a test," he stated firmly. "Some of the students will track down the best exam papers from last year, and so have an advantage." "I don't think so, "Einstein gently replied. "It's true that the questions remain the same. But the right answers are constantly changing."

Einstein's wisdom has relevance for our business. The telecommunications industry still connects people and companies. But the solutions we provide have changed dramatically. And they will continue to change at a remarkable pace. If we provide our customers with answers from last year's exam book, we'll be hopelessly out of date.

That's why Canada needs genuinely fair competition. To keep our answers or solutions up-to-date we must allow all companies to explore all avenues. That will provide consumers with the greatest choice. My message this afternoon is that Canadian companies have long been leaders in telecommunications and they'll continue to lead, if they are allowed to compete fully and completely with global competitors.

I'll first talk about how Canadians have traditionally been in the forefront of telecommunications, in large part thanks to the efforts of the Canadian phone companies that now make up the Stentor Alliance. I'll then emphasise the need for competitive equity so our enviable record of success can continue.

An Economic Leader

Canada has a proud tradition of leadership in telecommunications. And it's been the Stentor companies that have shaped that tradition. It goes back to the nineteenth century when Alexander Graham Bell made his home here in Canada. The world's first long-distance call was made from Brantford to Paris, Ontario.

And we've continued to build on this early lead. Canadians developed the x.25 protocol that became the world standard for data communications. We developed the world's first national data network and then the first packet network. We're world leaders in satellite technology, conferencing applications for distance education, and telemedicine, all of which means that Canadian business and consumers have access to the most sophisticated telecommunications in the world, a decided competitive edge in today's global marketplace. The Stentor companies are proud to have been instrumental in this success.

That spirit of innovation continues in the Canadian telecommunications companies today. We are acknowledged world leaders in speech recognition technology. We are front-runners in the exploration of advanced intelligent network technology. Thanks to the Stentor companies and the Schoolnet initiative, ours will be the first country to have all its schools hooked up to the Internet, two years ahead of the Americans.

Today, as technologies converge and computing power soars, the Stentor companies are committing still further to innovation. Taken together, our member firms spent about $181 million in research and development in 1995 and will do the same in 1996. And three of the Stentor companies, Bell Canada, BCTel and Telus, individually rank among the top 20 Canadian businesses for spending on R&D.

But our impact goes much further. We asked Deloitte & Touche Consulting to conduct an economic analysis of the impact of the Stentor companies on the Canadian economy. The initial results clearly demonstrate that our contribution goes far beyond providing dial tone to millions of Canadians.

According to the study, the Alliance is Canada's number-one private-sector employer with more than 85,000 people working for our nine companies. In addition, Deloitte suggests that we contribute another 29,000 jobs through our suppliers in telecommunications and other industries. Because our jobs are highly skilled and knowledge-based, our employees' average salary is $53,000. That means that our payroll alone brings over $4.5 billion a year into the economy—yes, I said billion. That employment value is more than double the next private sector player. Given our capital and operating expenditures which total $13.6 billion a year and the taxes we pay about $1.5 billion—and you thought you paid a lot of taxes—our total contribution to the Canadian Gross Domestic Product is a hair under $20 billion, or 2.5 per cent.

But our impact is more than just a money game. We also contribute to the well-being of Canadians in many ways.

NB Tel is a leader in broadband communication with its VideoActive network. This initiative, which began in August, provides two-way, broadband services to 5,000 homes. Services include very high-speed Internet access, on-line access to the province's daily newspapers and links to an on-line phone store. In 1997, NB Tel will add 15,000 more customers.

In central Canada, we've developed an Intranet, called AutoLinx. It ties together the big car companies in real time with their suppliers and distributors, it allows engineers to consult suppliers and it lets small firms offer just-in-time delivery. The result makes everyone more competitive. And more than that, AutoLinx has been adopted as the North American standard.

In Alberta, we're exploring a wide array of telemedicine applications. We're developing a portable unit complete with all the peripherals necessary for remote diagnostics and monitoring. The result allows Canadians in rural and remote locations to stay in their homes rather than going to hospital in a distant urban centre.

In B.C., we're an active partner with Simon Fraser in its TeleLearning Research Network, whose projects include a Virtual University which connects 750 students and 130 professors in 12 sites. Through contributions, such as this one, Simon Fraser was recognised in Maclean's recent issue on universities as the number-one comprehensive university.

These examples are but a few of the ways that the companies in the Stentor alliance bring new value to communities across the country. In fact, given that we have physical presence in so many cities and towns in Canada, we also understand we have a responsibility to giving something back to those communities and the people who live in them.

In 1995, for example, we supported Canadian cultural organisations with over $10 million in donations. Recipients included virtually every major arts organisation in Canada. Here in the Toronto area, the list includes the Art Gallery of Ontario, the Science Centre, the Shaw and Stratford festivals, the Toronto Symphony and the Young People's Theatre.

Here in Canada we have built a dynamic telecommunications industry with a strong international presence. Firms, such as Nortel and Newbridge, are spin-offs of the Canadian telephone companies and remain major suppliers. And they are also, based on the experience they gained with us, important players in world markets.

We have also built a superb communications system. Canada is the most plugged-in nation on earth, despite the fact that we have the world's second-largest geographic area. More than 98 per cent of Canadian homes have both a telephone and a television. Cellular and paging services are available to more than 94 per cent of the population. No other nation can make these claims. The Stentor companies are proud of the contribution they've made to Canadian leadership.

Being as wired as we are also makes Canada an extremely attractive location for economic expansion. A recent survey of the 1000 largest companies in the world, undertaken by our international allies, MCI and British Telecom, underlines the importance of telecommunications in the decision-making process. The availability of sophisticated telecommunications ranks third, behind only political stability and a skilled work force. In fact, 89 per cent of those large companies say that telecommunications will continue to become even more important to global expansion plans over the next five years.

The Importance of Getting the Rules Right

Will our ability to provide for Canadians continue? Will we be able to provide the same level of innovation we have in the past? Will we be able to ensure that Canada continues to maintain its position of world leadership in telecommunications?

With some policy changes, yes. The present regulatory framework which governs long distance hobbles the Canadian companies that make up the Stentor Alliance. And because we are hobbled, so are you as our customers.

Let me be emphatic about this point: We are not asking for special favours. But we do ask that we not be singled out with special restrictions. Let's have a uniform set of rules that applies to everyone. If we're running a race, some players shouldn't be allowed to sprint while others are forced to clear a set of hurdles.

First, we can't package our services to you. Our 300 competitors can.

I'll explain. Many of you want one-stop shopping for all your telecommunications needs. You are looking for suppliers that anticipate and exceed your needs. You recognise that purchasing a group of products from one supplier provides convenience and is often cost-effective. We surveyed our business and residential customers and found that between 60 and 70 per cent of them want some form of packaged services. For example, consumers would like to see a single bill for communications and entertainment services and we'd like to provide it. But Stentor companies are not allowed to combine our services. All our competitors can.

For example, in Nova Scotia, AT&T is offering Halifax and Dartmouth residents free speciality cable TV channels for six months if they switch to the company's long-distance service. Another competitor, ACC, has announced plans to bundle services including long-distance, toll-free service, local services, phone cards and even Internet access.

We can't even provide a single bill for our wired and cellular services. It doesn't make sense to you, our customers. And it doesn't make sense to us.

Second, we're not free to offer special rates to large customers. Our 300 competitors can.

For example, if a group of franchisees asks for group discounts on their telecommunications needs, the Stentor companies cannot provide special rates. Our competitors can.

If a government department asks us to include the cost of training, maintenance and service as part of a single price on long distance, we could not bid on this contract and yet 300 competitors can.

Third, we're not allowed to respond instantly to the demands of the marketplace. Our 300 competitors can.

When the Stentor companies want to introduce a new price, product or service so that customers can benefit immediately, they must make a formal request to the CRTC. The Commission generally takes weeks to make its decision. We'd like to provide that innovation to you in 24 hours. That's what you deserve.

It's a huge understatement to say that long-distance service has caught on in Canada. As I've suggested, today more than 300 companies provide long-distance service as carriers, resellers or rebillers. The Stentor companies have diligently complied with all the conditions of competition. We introduced equal access faster than our American counterpart did and we have now completed the work to unbundle access to our local services. Today, the Canadian long-distance market is flourishing and the time has come to unshackle the telephone companies and let them compete on an equal footing.

The Way Forward

These unfair restrictions weaken a key industry and that will ultimately affect all Canadians. Canada is going out of its way to protect corporations that are among the largest in the world. A&T, for example, is the second-largest telecommunications firm in the world. Sprint is twelfth-largest. Bell Canada, the largest of the Stentor companies, is only twenty-fifth. I ask you, why are we protecting these global giants? Why are we protecting them from us?

Perhaps it's because Canadians have a tendency to step aside as others enter the picture. We seem to belittle ourselves. As actor Donald Sutherland said: "Canadians, and I am one of them, are forever apologising for themselves. It's as though being Canadian is the original sin."

We need to accept ourselves and see our strengths. And telecommunications is one of our home-grown strengths.

Toronto Star columnist David Crane has written: "The telecommunications industry is especially important to Canada's future, not only because of the expertise Canadians have developed in the industry, but also because the communications and computer content industry will be the most important industry for growth as we head into the next century."

Properly supported, our telecommunications resources can be a major impetus for knowledge creation in all sectors. Within our grasp is the possibility of making Canada a living lab for the future. That is what the companies that form the Stentor alliance want to build for you.

Innovative telecommunications applications will strengthen opportunities in all regions. They will provide access to all Canadians, wherever they choose to live, to employment, education, health care, entertainment, investment, and the wealth-creating opportunities of the information age. In short, the telecommunications industry is very much the key to our future.

But don't take my word for it. Economists like Nuala Beck and Michael Porter, visionaries like Don Tapscott, and major consulting firms like Arthur Anderson and McKinsey all agree that an innovative telecommunications sector is crucial for a dynamic economy.

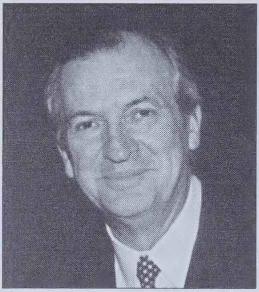
This brings me back to my message. Canadians have a proud tradition of leadership in telecommunications and I'm very confident we'll continue to lead if we can compete fairly and openly with our foreign competitors. If we are allowed to succeed, Canadian business will have world-class communications to increase their competitiveness and Canadian consumers will have the right to innovative services that are convenient and user-friendly.

The Stentor companies envision a future where Canada remains a respected leader in telecommunications. We believe our past accomplishments and present stature position us to lead Canada forward.

I'm an optimist. I'm convinced a broad range of firms can flourish in the telecommunications industry. I'm convinced the real winners will be Canadians who will benefit from the employment and the services that will result from a vital industry where everyone is free to offer the services that Canadians need and want.

So what are we waiting for?

The appreciation of the meeting was expressed by Marcia McClung, President, Applause Communications Inc. and a Director, The Empire Club of Canada.



December 9, 1996

A joint meeting of The Empire Club of Canada and The Canadian Club of Toronto

Laurent Beaudoin

Chairman and CEO, Bombardier Inc.

COMPETING IN THE TWENTY-FIRST CENTURY: OUR CHALLENGES

Chairman: **Stanley Hartt**
President, The Canadian Club of Toronto

Head Table Guests

Marilyn Mirabelli, President, Excellence in Communication and a Director, The Canadian Club of Toronto; Richard E. Venn, Chairman and CEO, CIBC Wood Gundy Limited; Brian M. Levitt, President and CEO, Imasco Limited; G. Yves Landry, President and CEO, Chrysler Canada Limited; Brian J. Steck, Vice-Chairman, Investment Banking, Bank of Montreal; Ann Curran, Principal, Lewis Companies and a Director, The Empire Club of Canada; Julie K. Hannaford, Partner, Borden & Elliot and President, The Empire Club of Canada; F. Anthony Comper, President and COO, Bank of Montreal and Vice President, The Canadian Club of Toronto; Susan Mann, President of York University; and Reverend Stephen Bemrose-Fetter, Minister, Metropolitan United Church.

Introduction by Stanley Hartt

Laurent Beaudoin

Thank you, Stanley. On behalf of Bombardier, let me begin by thanking The Canadian Club and The Empire Club for according me the honour of addressing this joint session.

I understand that these Monday speaking engagements have become de rigueur for prime ministers past and present. You will appreciate how ironic it is for me to be speaking during this same time slot since I never had, nor will have, any interest in active politics. However, my involvement in the last Quebec referendum and the abuse that I had to endure as a result has given me a lot of sympathy for those who have decided to engage in a political career.

The last few years have not been easy for many Canadians. We have worked hard to make our economy more competitive, and there have been some painful adjustments by individuals, companies and governments along the way. But there is now enough evidence to suggest that this restructuring process has placed our economy on the right track—that there is light at the end of the tunnel and I hope that, this time, it is not a fire!

The question on everyone's mind is, "How can we make sure the economy keeps growing and Canada remains competitive through to the next century? How do we continue to succeed in a changing world?"

As a businessman and entrepreneur, I believe that a country's economic success begins with the performance of individual companies—companies that see themselves as players on the world stage, companies such as Nortel, Magna, Barrick Gold to mention just a few, that have become truly transnational corporations. But it also includes mid-size or even small companies that are exporting successfully around the world.

Bombardier was once such a company. From modest beginnings in Valcourt, Quebec, a half century ago, we have now become a global competitor. We are one of the top Canadian-owned exporters of manufactured goods and in the first 10 for R&D spending. Three quarters of the products we manufacture here in Canada are exported, contributing strongly to the country's positive trade balance. In the past 10 years, our revenue has grown tenfold and we have expanded internationally. We have facilities in Canada, the United States, Mexico and six countries in Europe.

While we have developed beyond Canada's borders, we have grown very fast within Canada as well. According to the Business Council on National Issues, Bombardier has done more net hiring in Canada since 1990 than any other company that responded to their recent survey. Over the last six years, we have created 7,500 new jobs in Canada within our company and several thousand more in our suppliers.

For instance, in the aerospace industry alone, we now have a total of 14,100 employees working at de Havilland and Canadair. Another 9,000 jobs depend upon our purchases of materials and services from suppliers all across Canada.

Worldwide sales of our products have had a direct impact on Ontario's manufacturing sector. Since we purchased de Havilland in 1992, we have managed to grow there from a low of 2,740 jobs to more than 5,500 jobs. We have done this by bringing to de Havilland the manufacturing of the Learjet 45 wing, by giving it responsibility for the final assembly of the new Global Express, by increasing the sales of the Dash-8 regional turboprop, and by investing in the development of the new Dash 8-400.

In addition, we have located the Bombardier Regional Aircraft Division here in Toronto with a worldwide mandate for marketing, sales and service for all of our commercial aircraft. This division employs some 750 people.

Furthermore, our Transportation Group gives employment to more than 1,300 people in Ontario. Our Systems

Division in Kingston is spear-heading our worldwide sales effort for mass transit systems. Its 450 employees are currently working on projects such as Kuala Lumpur in Malaysia and Ankara in Turkey. Our Thunder Bay operation with some 800 employees is manufacturing transit cars for the Toronto Transit Authority, for San Diego, Ankara, and other cities.

All together, we now employ 7,000 people in Ontario directly, and thousands more through our suppliers.

As a Corporation, Bombardier competes in several industries and markets, each one with its unique challenges and opportunities.

Our Motorized Consumer Products Group has achieved remarkable success in the last few years in competition against Yamaha and Kawasaki and aggressive American firms such as Polaris and Arctic Cat. We are a very strong player in the snowmobile market, a market which we practically invented almost 40 years ago. We have gained some 50 per cent of the global market for personal watercraft, a two-billion-dollar industry that didn't exist a decade ago. The Sea-Doo products have been developed here in Canada where they are manufactured and exported to 42 countries around the world. We are also early leaders in both innovation and market share in the jet-boat business, and we have recently launched a unique product, the Neighbourhood Electric Vehicle, for an emerging market.

In mass transit we are up against truly global competitors such as Siemens, ABB-ADTRANZ, GEC-Alsthom and Kawasaki. Nevertheless, we have managed to do pretty well. Bombardier is the only remaining manufacturer in North America and we have captured over 30 per cent of this continental market. We have also become a major player in the European market and our presence is felt in Asia with projects in Indonesia and Malaysia. In partnership with GEC-Alsthom we are introducing TGV technology to North America in Florida and will, some day perhaps, in Canada. We are also producing innovative, high-speed tilting trains for Amtrak's key north-east corridor running from Washington to New York to Boston.

In business jets, we are also leading in product innovations with our new Learjet 45, the mid-size Learjet 60, the wide-body Challenger G04 and the world-beating, ultra-long distance Global Express. I trust and hope that you have or will have the opportunity to sample some of these products. They are remarkable tools to increase the efficiency of any executive team. In business jets, we are up against excellent high-tech companies such as Dassault of France, Textron's Cessna, Raytheon's Beechcraft, and, of course, Gulfstream Aerospace.

As you can see, we compete in many different markets, with lots of different products, against very tough competitors. I am sure that you ask yourself what do these markets have in common? These are all markets characterised by global competitors with first-class reputations and vast resources for the research and development of new products.

The businesses I have talked about so far, motorised consumer products, mass transit and business aircraft account for about 75 per cent of our total sales and they are all businesses—this might surprise you—where there is little or no government support to industries in Canada or elsewhere. I believe this is worth mentioning as there has been a lot of media coverage of the federal government's involvement in the commercial aerospace industry, a sector which represents about 25 per cent of our total revenues.

I would like to focus on this part of our company for the next few minutes. I believe that some of the comments in the media may have lead to a misperception of Bombardier as well as misperception of what it takes to succeed in the global business of commercial aircraft.

First, the Canadian aerospace industry is vital to our country.

- Aerospace supports 54,000 highly paid jobs in Canada.
- Seventy per cent of its sales are exports, contributing strongly to the country's positive trade balance.
- For every 1000 aerospace jobs, 500 high-salary, high-skill jobs are created in related industries.
- Finally, aerospace invests $1.5 billion annually in R&D in Canada, or 12 per cent of its sales.

Just 10 years ago, in 1986, major sectors of the Canadian aerospace industry were government owned. At that point, the Canadian government led other countries by moving to privatise the two main-frame manufacturers of the time, Canadair and de Havilland.

Today, our very successful aerospace industry is owned by the private sector. And Bombardier is not alone in this success. Pratt & Whitney Canada is a world leader in high-performance turboprop engines, as is CAE in flight simulators. Canadian aerospace companies have grown by 50 per cent over the past 10 years, more than the aerospace industry in any other country of the OECD. The private sector has poured billions of dollars into this sector in order to create industry leaders. And we did it with as little government involvement as possible.

Since the acquisition of Canadair, we have invested $1.4 billion in that operation. The Canadian government's contribution for all product development there over the last 10 years was $161 million and 90 per cent of it is repayable. If Bombardier decides to launch the CRJ-X 70 seater jet, we will invest another $600 million towards which the federal government would contribute $87 million all repayable through royalties.

Since 1986, we have become a world leader in business aircraft. We have gained a leadership position in regional turboprops, expanding and renewing the Dash 8 family of aircraft. And we have created a whole new market for 50-seat jets with the CRJ. As a result, in just 10 years, Bombardier has become the world's number-four civil-aircraft airframe manufacturer.

The commercial aircraft industry has always been characterised by high levels of government involvement. This is much less true in Canada today, but is still very true in other parts of the world where our competitors are located.

Almost all commercial plane manufacturers in other countries are funded through military aircraft programmes. In the United States, $12 billion a year in aerospace research and development is funded by the federal government mostly through military contracts. Military aircraft programmes are also key to the commercial aerospace sector in France, Great Britain, Italy, Brazil, and even in relatively small countries like Holland and Sweden.

In addition, our major competitors in France, Italy, and Brazil are owned in part or in whole by their national governments. As a result, our different competitors may, depending on the country, have their losses absorbed, their R&D costs written off, or their aircraft financed at subsidised rates.

The commercial aircraft market is highly price sensitive and our competitors' prices reflect their government support. It is therefore extremely unlikely that we could at this time achieve a fair rate of return on new aircraft programmes without any type of government funding.

As it stands now, compared to support given by foreign governments which may reach up to 60–90 per cent, the Canadian government's support, through the Technology Partnerships Program, is very moderate. This programme is a way for the federal government to contribute in a refundable way to large and risky development projects while ensuring that the responsibility for investment rests with the private sector.

In exchange for every $3 invested by a company in R&D, the Technology Partnerships Program may provide up to $1. But this $1 is not a gift, it is not even a loan: it is an investment on which the federal government expects a royalty. However, this programme plays an essential role in making large and risky projects economically viable while ensuring that the major responsibility for funding rests, as it should, with the private sector.

Eliminating all government support in one fell swoop before our competitors' governments do the same would stall our industry's growth in Canada and channel our aerospace investments to other countries. Canadian government leadership in this area should not mean that we naively expect other countries to stop over-night supporting their aerospace industry just because Canada would have chosen to do so. The Canadian government has shown restraint and thoughtfulness in the way it ensures Canadian aerospace is not crippled before a global ratcheting down of government support takes place.

We expect that foreign government subsidies to the aerospace industry, still high today, will come down in coming years as pressures mount on these governments to reduce their public debt, to privatise and to stop tampering with market forces. For European countries, their effort to meet the deficit and debt targets required for entry into the European Monetary Union is forcing a reconsideration of government subsidisation.

Canada is at the forefront of these changes. Canada, with the full support of Bombardier and other members of the Canadian aerospace industry, is working actively in bilateral and multilateral discussions at the WTO and OECD to reduce the support provided by other governments. We fully back these initiatives because we believe that, on a strictly commercial basis, Bombardier and the rest of the Canadian aerospace industry could take on the world.

Indeed, Canada has a number of important comparative advantages in the aerospace sector. We have a critical mass of excellent companies in Quebec, Ontario, and, increasingly, in BC, with many years of experience and global credibility. For our part, we have played a global leadership role in consolidating the industry to a smaller number of players who can provide customers with a family of regional aircraft offering all the advantages of commonality to airlines. This is key to our long-term success.

Indeed, the new President of Aero International (Regional)—European consortium of Aerospatiale (government owned), Alenia (government owned), and British Aerospace (thankfully in the private sector), that is trying to create the Airbus of regional aircraft—recently stated that: "Aero international (Regional) and Bombardier will be the industry leaders in regional aircraft."

I guess if he wants to play the Airbus of regional aircraft, that means we should play Boeing, and that is all right with me! In fact, our 40-per-cent share of the regional market so far this year suggests that we are well on our way.

In the long run, successful firms do not become internationally competitive because of government money. Indeed, as I mentioned before, three quarters of our business already receives little or no sector-specific support. These sectors aren't subsidised in Canada or abroad. They are level playing fields, and, as I have shown before, Bombardier can be a winner under those conditions.

There are many success stories in the audience today. Canadian companies are winners in the global arena when the rules of the game are fair for all players.

But the success of Canadian companies in world markets will not ensure the prosperity of Canada if we don't keep our politics from doing permanent damage to our economy. As a Canadian from Quebec, I would like to say a few words on what seems to be the never-ending debate over the future of our country.

It is quite obvious that there is a growing tension between the harsh economic and fiscal realities facing the

Quebec government and the raison d'être, the overriding objective of the party in power, the Parti Québécois. Business people participating at the Economic Summit made sure that the Quebec government understood and faced up to the problems and challenges of the Quebec economy. We intend to continue doing so in the coming months and years.

But, whether pragmatic necessity carries the day may well depend on the decisions of governments outside Quebec, both federal and provincial. These governments can, and should act, on some of the issues that have been sources of tension in Quebec and elsewhere in Canada. We must call upon our store of pragmatism, good-will, and openness to new ideas to resolve our national challenges.

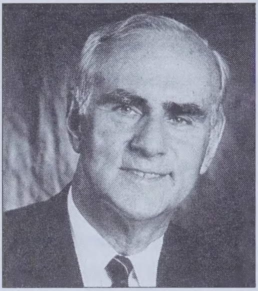
A century ago, a great Canadian, Sir Wilfrid Laurier, predicted that the 20th century would belong to Canada. If he were to look upon our achievements in several areas—economic, artistic, human rights, standard of living—I believe he would say: "Job well done."

But, will the 21st century belong to Canada? I am deeply convinced that if we can find our way out of our costly national unity debate, it will unleash the energy, the drive, the sense of purpose, which can truly make Canada an economic champion and one of the best countries in the world.

But to achieve this goal will require from governments, businesses and citizens a renewed determination to settle our political and constitutional differences. If we do so, Canadians will enter the next century with hope and confidence in their future.

Thank you.

The appreciation of the meeting was expressed by Julie K. Hannaford, Partner, Borden & Elliot and President, The Empire Club of Canada.



December 12, 1996

The Hon. Henry N.R. Jackman

Lieutenant-Governor of Ontario

CHRISTMAS LUNCHEON

Season's Greetings from the Lieutenant-Governor and Special Performance by the Toronto Mendelssohn Youth Choir

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Larry Stout, CTV Broadcaster and Journalist, a Director, The Empire Club of Canada and Co-chair of this Christmas luncheon; Thera Ip, OAC student, Monarch Park Collegiate; Dr. Ming Cheung, Chairman, the Chinese Canadian Cultural Association of Canada; Robert Pilon, from the Toronto productions of "Les Miserables" and "Phantom of the Opera," with his award-winning television variety special, and now his two recently released CDs, entitled "Given The Chance" and "A Christmas Night"; Dr. Owens Wiwa, Nigerian Civil Rights Activist (Dr. Wiwa's brother, the writer and environmentalist, Ken Saro Wiwa, was executed last year by Nigeria's military government for his human rights activities on behalf of the Ogoni people. Dr. Wiwa and his wife, who is also with us today, were helped out of Nigeria by the Canadian Embassy, and now live in Toronto where they continue their work for human rights); Douglas Derry, Partner, Price Waterhouse, Past President, The Empire Club of Canada and President, The Empire Club Foundation; Mrs. P. Hannaford, business woman, and mother of the President of The Empire Club of Canada; The Hon. William G. Davis, P.C., C.C., Q.C., of Tory, Tory, DesLauriers & Binnington and Honorary Solicitor, The Empire Club of Canada; Maria Roman-Bricknell, Consultant, Fleishman Hillard, Co-chair, Christmas luncheon and a Director, The Empire Club of Canada; Don Harron, Actor, Comedian, Storyteller; Charlie Farquarson, a member of the Order of Canada; J. Steve Dupre, President and CEO, The Canadian Institute for Advanced Research; Daryl Sittler, Special Consultant to the President, Toronto Maple Leafs Hockey Club, Former Captain, Toronto Maple Leafs, inducted into the Hockey Hall of Fame in 1989. (His record of 10 points, 4 goals, and 4 assists in one hockey game, achieved on February 7, 1976 still stands as an NHL record. That record notwithstanding, Mr. Sittler continues to be best remembered for his winning overtime goal in the Canada Cup Series in 1976.); Andrew McLeod, Recipient of Lieutenant-Governor's Award for fight against racism and Founder of the Scarboro Multi-cultural and Race Relations Committee; The Rev. Canon Harold Roberts, Rector, St. Timothy's Church Agincourt and a Past President, The Empire Club of Canada; and George Cooke, President and CEO, The Dominion of Canada General Insurance Company.

Introduction by Julie Hannaford

It is a great pleasure to have His Honour with us today. As many of you know, the term for the Lieutenant-Governor has now come to an end. As a Past President of The Empire Club of Canada, His Honour distinguishes The Empire Club of Canada and his distinguished service as Lieutenant-Governor of the province of Ontario makes this occasion particularly special.

The Honourable Henry N.R. Jackman, Lieutenant-Governor of the province of Ontario, brings greetings from the Queen.

Lieutenant-Governor Jackman

Thank you very much, Julie. Ladies and gentlemen, this is a pleasure for me.

You are right. My term as Lieutenant-Governor of Ontario is rapidly coming to an end. I think it is very significant to note that I was sworn in as Lieutenant-Governor on December 11, 1991. Today is December 12, 1996 so this particular function, the Empire Club Christmas Dinner, which always comes at the same time of the year, the day or two days after I was sworn in, was my very first event. I came here and I brought you greetings from Her Majesty the Queen. Now that I am about to retire this is my last event. It's at the same place and in the same room with many of the same people, so I think the circle has come around and closed.

I was President of this Club in 1971. My very first speaker was a young politician who had just come off a bruising leadership convention and knew that he was going to be forced into an election. Right from this platform, my very first speaker, Julie, was Bill Davis. Now here you are sitting next to me, so the circle has closed twice.

At any rate I have certainly enjoyed being Lieutenant-Governor. I see very many friends here. Julie, I will not be at your lunch as Lieutenant-Governor next Christmas, but I assure you I will be at your lunch. I wish you all the best on behalf of Her Gracious Majesty the Queen whom I have had the distinct privilege and honour to represent. I bring you her greetings and the very best for the Christmas season and the new year.

Introduction of the choir by Julie Hannaford

The Empire Club of Canada's Annual Xmas Luncheon is made very special by the Toronto Mendelssohn Youth Choir. Both the Choir and their Conductor, Mr. Bob Cooper are a tribute to the City of Toronto, and it is their performance today which provides the special festive quality that continues the tradition of our Annual Christmas Lunch.

This is a special season, marked by the phrase "peace on earth, goodwill towards men." To borrow from Charles Dickens: "Who can be insensible to the outpourings of good feeling and the honest interchange of affection and attachment which abound at this season of the year. Petty jealousies and discourse are forgotten. Social feelings are awakened in hearts where they have long been strangers.

Father and son, or brother and sister, who for months before have met and passed with averted gaze or a look of cold recognition, proffer and returned a cordial embrace and bury their past animosities in their present happiness. Kindly hearts that have yearned toward each other, but have been withheld by false notions of pride and self-dignity are again re-united and all is kindness and benevolence. Would that this season lasted the whole year through. And that the prejudices and passions that deform our better nature were never called into action amongst those to whom they should ever be strangers."

Ladies and gentlemen, to usher in the festive season as no other group could, please welcome the Toronto Mendelssohn Youth Choir.

The appreciation of the meeting was expressed by Larry Stout, CTV Broadcaster and Journalist, a Director, The Empire Club of Canada and Co-chair of this Christmas Luncheon.

The Hon. Roy Romanow, Q.C., Premier of Saskatchewan, Julie Hannaford, President, The Empire Club of Canada and Stanley Hartt, O.C., Q.C., President, The Canadian Club of Toronto.

Adam Zimmerman, Former Chairman, Noranda Forest and Past Chairman, Branksome Hall, Anne Libby, Owner Libby's of Toronto Art Gallery and a Director, The Empire Club of Canada, LCol Frederic L.R. Jackman, C.St.J., C.D., Ph.D., President, Invicta Investments Incorp. and a Past President, The Empire Club of Canada.

Anne Golden, President and CEO, United Way of Greater Toronto, The Hon. Paul Martin, Minister of Finance, Robert Prichard, President, University of Toronto and Julie Hannaford, President, The Empire Club of Canada.

Mr. and Mrs. Tadeusz Diem with Julie Hannaford, President, The Empire Club of Canada.

WILLIAM A.
DUNCAN

William Duncan, Director, The Empire Club of Canada with Amanda Leduc, OAC student, Central Technical School.

Colin Watson, President and CEO, Spar Aerospace Ltd. and Bill Laidlaw, Director, Government Relations, Glaxo Wellcome Inc. and a Director, The Empire Club of Canada.

Julie Hannaford, President, The Empire Club of Canada with The Hon. John Manley, Minister of Industry.

Benita Ferrero-Waldner, State Secretary for Foreign Affairs for Austria with Diana Chant, Partner, Price Waterhouse and Treasurer, The Empire Club of Canada.

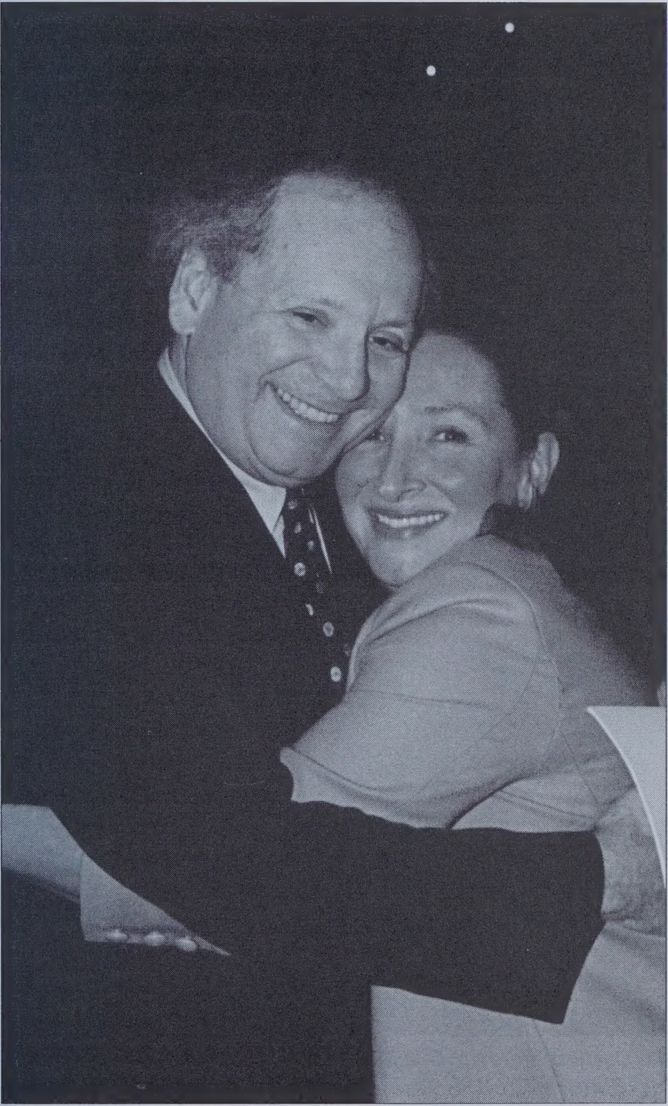
Jean Charest, Leader of the Progressive Conservative Party of Canada with Julie Hannaford, President, The Empire Club of Canada.

Jean Charest, Leader of the Progressive Conservative Party of Canada with Julie Hannaford, President, The Empire Club of Canada.

Ed Badovinac, Professor of Telecommunications, George Brown College, a Director, The Empire Club of Canada and Chairman of the Yearbook, Catherine Charlton, Principal, Charlton Management, Member of the Board, the Ontario College of Physiotherapists and a Past President, The Empire Club of Canada and Kiloran German.

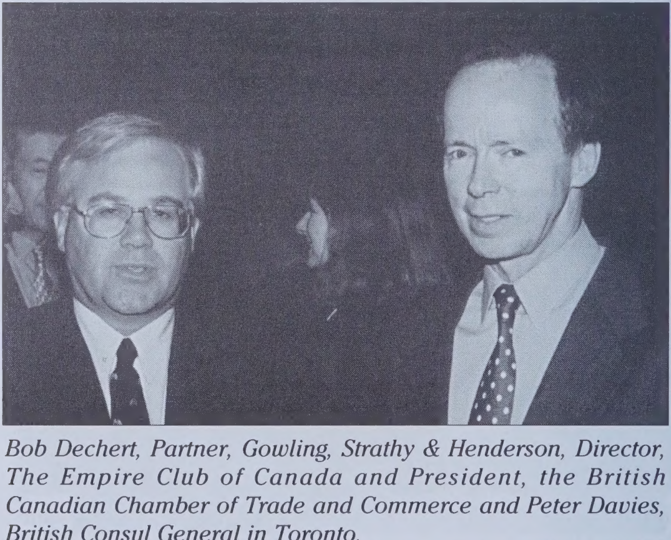
The Hon. Hal Jackman, Chairman, The Council for Business and the Arts in Canada and a Past President, The Empire Club of Canada and Julie Hannaford, President, The Empire Club of Canada.

Past Presidents and Directors of The Empire Club and Foundation gather for the 1996 annual dinner in the presence of His Honour H.N.R. Jackman, also a distinguished Past President of The Empire Club of Canada.



Stanley Hartt, President, The Canadian Club of Toronto and Rosalie Abella, Justice, Court of Appeal for Ontario.

Gordon Steele, Archivist and Historian, The Empire Club of Canada shaking hands with Jürgen Weber, Chairman of the Executive Board, Lufthansa German Airlines.



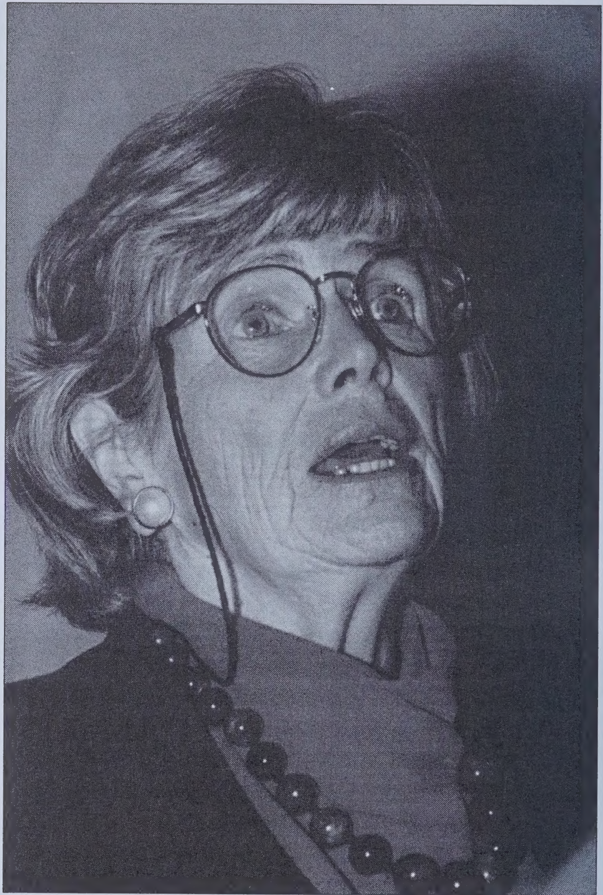
Bob Dechert, Partner, Gowling, Strathy & Henderson, Director, The Empire Club of Canada and President, the British Canadian Chamber of Trade and Commerce and Peter Davies, British Consul General in Toronto.

John McLennan, President and CEO, Bell Canada and Julie Hannaford, President, The Empire Club of Canada.

Bob Dechert, Partner, Gowling, Strathy & Henderson, Director, The Empire Club of Canada and President, the British Canadian Chamber of Trade and Commerce, Sir Richard Sykes, Deputy Chairman and CEO, Glaxo Wellcome plc and T. Garry O'Neil, Partner, Gowling, Strathy & Henderson.

Robert Gemmell, President and CEO, Salomon Brothers Canada, Julie Hannaford, President, The Empire Club of Canada and John Hunkin, President, CIBC Wood Gundy.

Julie Hannaford, President, The Empire Club of Canada and Robert Gemmell, President and CEO, Salomon Brothers Canada.



Dr. Dorothy Wedderburn, Professor, Management School, Imperial College of Science, Technology and Medicine, London University.

Dr. Dorothy Wedderburn, Professor, Management School, Imperial College of Science, Technology and Medicine, London University and Catherine Charlton, Principal, Charlton Management, Member of the Board, the Ontario College of Physiotherapists and a Past President, The Empire Club of Canada.

Sandy Cameron, Director, The Empire Club of Canada and Anne Lato, Empire Club Administrator at the Past Presidents' Dinner, 1996.

The Hon. Donald Macdonald, McCarthy Tetrault, The Hon. Barney Danson, Honorary Director, The Empire Club of Canada, Tim Bates and Jeffrey Simpson, Columnist and Author.

The Hon. Barbara McDougall, Sharwood and Company, Bill Catucci, President and CEO, AT&T Canada Long Distance Services, Julie Hannaford, President, The Empire Club of Canada and Ann Curran, President, Curran & Associates, Principal, Lewis Companies and a Director, The Empire Club of Canada.

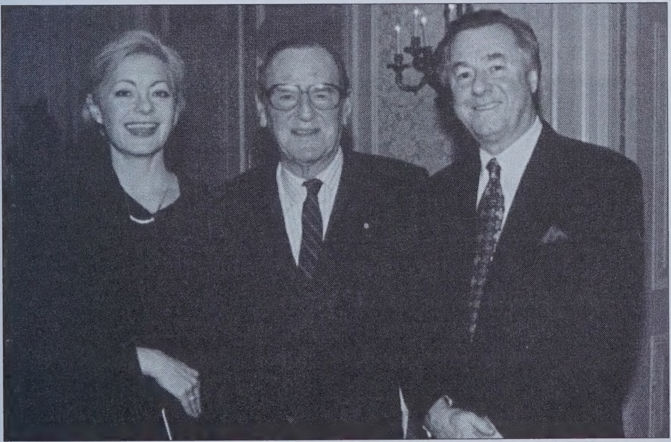
Julie Hannaford, President, The Empire Club of Canada and Jeffrey Simpson, Columnist and Author.

David Parkes, President and CEO, Sprint Canada Inc. and Julie Hannaford, President, The Empire Club of Canada.

Gareth Seltzer, Director, The Empire Club of Canada, Julie Hannaford, President, The Empire Club of Canada and The Hon. Brian Tobin, Premier of Newfoundland and Labrador.

Alan Fotheringham, Columnist, The Hon. Barney Danson, Honorary Director, The Empire Club of Canada and William Somerville, Counsel, Borden & Elliot.

The Hon. Douglas Young, Minister of National Defence and Veterans Affairs, Jocelyn Badovinac, U.E. M.Ed., and Ed Badovinac, Professor of Telecommunications, George Brown College, a Director, The Empire Club of Canada and Chairman of the Yearbook.



Julie Hannaford, President, The Empire Club of Canada, The Hon. Barney Danson, Honorary Director, The Empire Club of Canada and The Hon. Douglas Young, Minister of National Defence and Veterans Affairs.

Carol Stephenson, President, Stentor Resource Centre Inc. and Gordon Steele, Archivist and Historian, The Empire Club of Canada.

Carol Stephenson, President, Stentor Resource Centre Inc.

Ann Curran, President, Curran & Associates, Principal, Lewis Companies and a Director, The Empire Club of Canada, Stanley Hartt, President, The Canadian Club of Toronto and Laurent Beaudoin, Chairman and CEO, Bombardier Inc.

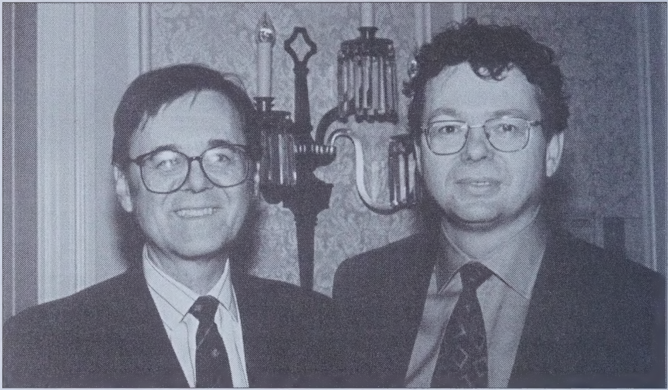
Toronto Mendelssohn Youth Choir.

Ira Gluskin, President and Chief Investment Officer, Gluskin Sheff & Associates Inc., Julie Hannaford, President, The Empire Club of Canada, Donald Coxe, Chairman and Chief Strategist of Harris Investment Management and Chairman of Jones Heward Investments Inc. and Michael Manford, Chief Economist at Scotia Capital Markets.

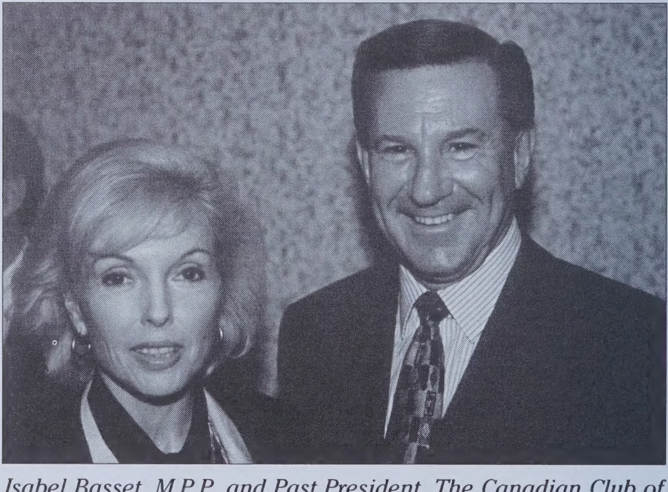
Leslie Dan, Chairman and CEO, Novopharm Limited.

Preston Manning, Leader, Reform Party of Canada, Julie Hannaford, President, The Empire Club of Canada and Stanley Hartt, President, The Canadian Club of Toronto.

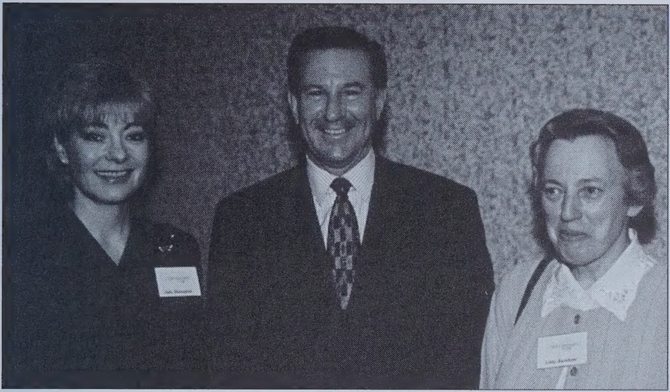
Charles Sirois, Chairman and CEO, Teleglobe Inc. and Blake Goldring, Vice-President, National Sales, AGF Management Limited and a Director, The Empire Club of Canada.



Ed Badovinac, Professor of Telecommunications, George Brown College, a Director, The Empire Club of Canada and Chairman of the Yearbook and Charles Sirois, Chairman and CEO, Teleglobe Inc.



Isabel Basset, M.P.P. and Past President, The Canadian Club of Toronto with The Hon. Ernie Eves, Minister of Finance.



Julie Hannaford, The Hon. Ernie Eves, Minister of Finance and Libby Burnham, Past President, The Canadian Club of Toronto.

The Hon. Ernie Eves, Minister of Finance and Ann Curran, President, Curran & Associates, Principal, Lewis Companies and a Director, The Empire Club of Canada.

Past Presidents John Campion, Partner, Fasken Campbell Godfrey, and David Edmison, Investment Counsellor, Martin, Lucas & Seagram Ltd. with Julie Hannaford, this year's President, The Empire Club of Canada.

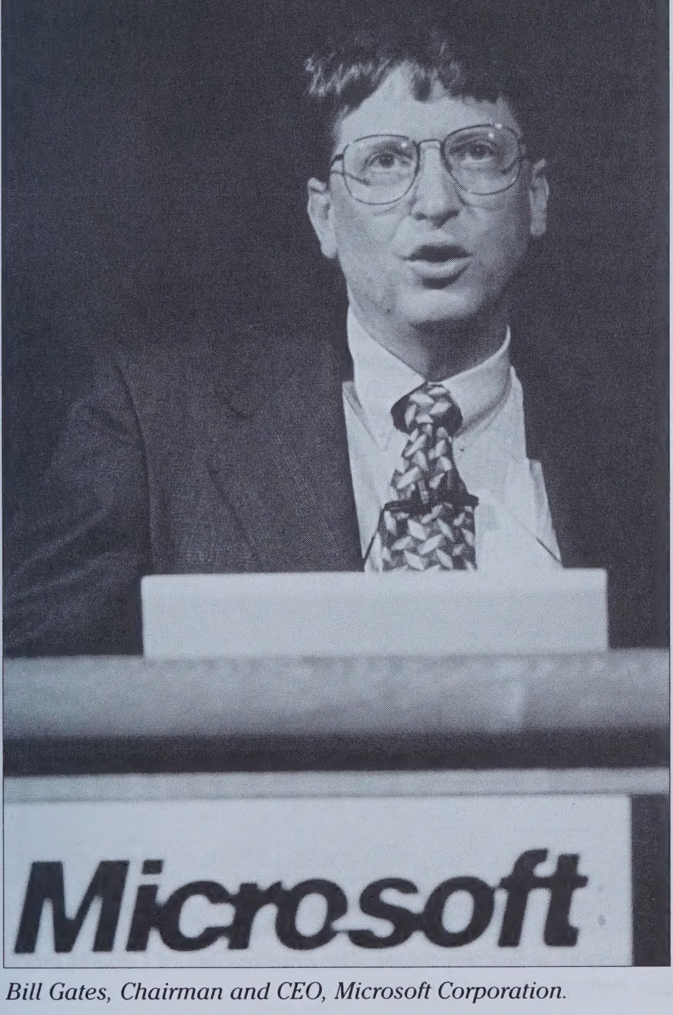
Helmut Schmidt, Former Chancellor, Republic of Germany and Mary Lou Benotto, Partner, Chappell, Bushel, Stewart and First Vice-President, The Empire Club of Canada.

Helmut Schmidt, Former Chancellor, Republic of Germany and John Campion, Partner, Fasken Campbell Godfrey and a Past President, The Empire Club of Canada.

Sandy Cameron, a Director, The Empire Club of Canada and head table host, and Anthony Goodenough, British High Commissioner.

EMP E CLUB
ROGERS

Serhiy Holovaty, Minister of Justice for the Ukraine.



Bill Gates, Chairman and CEO, Microsoft Corporation.

Douglas Todgham, Vice-President, The Canadian Institute for Advanced Research, Third Vice-President and Director, The Empire Club of Canada, Ron Munkley, President and CEO, The Consumers Gas Company and Harry Seymour, President and CEO, Pathfinder Learning Systems Corporation and a Past President, The Empire Club of Canada.

Sarah Band, a Past President, The Empire Club of Canada and Alan Fotheringham, Columnist.

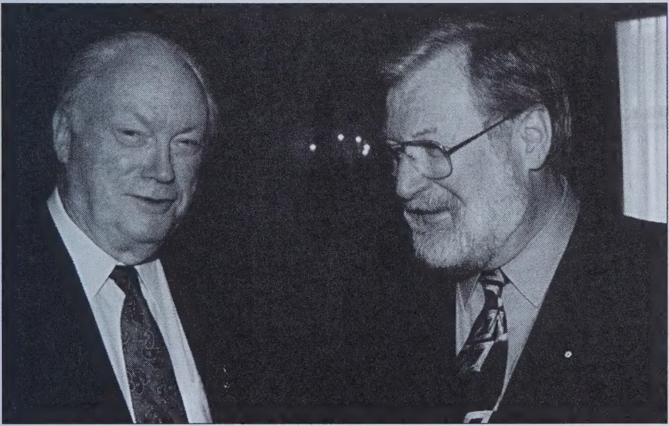
The Rt. Hon. Roméo LeBlanc, Governor General of Canada and Catherine Charlton, Principal, Charlton Management, Member of the Board, the Ontario College of Physiotherapists and a Past President, The Empire Club of Canada.

Bill Gates, Chairman and CEO, Microsoft Corporation and Blake Goldring, Vice-President, National Sales, AGF Management Limited and a Director, The Empire Club of Canada.

Bill Gates, signing the historic Empire Club book with Julie Hannaford looking on.

Ron Munkley, President and CEO, The Consumers Gas Company and Douglas Todgham, Vice-President, The Canadian Institute for Advanced Research, Third Vice-President and Director, The Empire Club of Canada.

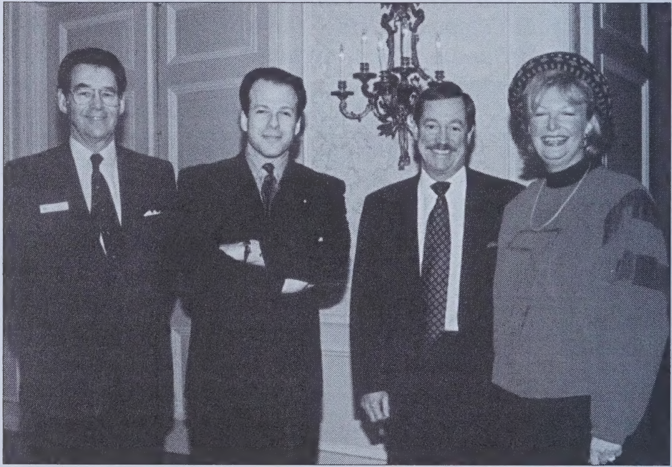
Doug Lindores, Secretary-General and CEO, The Canadian Red Cross Society, Ann Curran, President, Curran & Associates, Principal, Lewis Companies and a Director, The Empire Club of Canada and Gordon Steele, Archivist and Historian, The Empire Club of Canada.



Willis Blair, Secretary, The Empire Club of Canada and Doug Lindores, Secretary-General and CEO, The Canadian Red Cross Society.

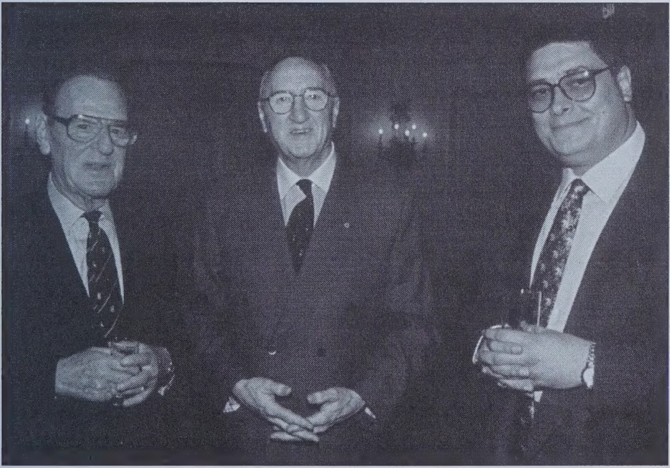
EMPIRE CLUB
ROGERS

Ron Munkley, President and CEO, The Consumers Gas Company.

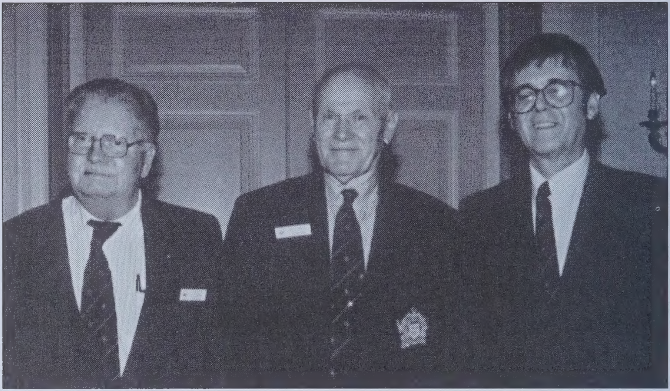


Eric Jackman, President, Invicta Investments Incorp., President, AGO and Past President, The Empire Club of Canada, Max Anderson, Director, AGO, Michael Hasley, Past President, AGO and Marnie McGarry, Director of Development, Adventure Place, Calico School and a Director, The Empire Club of Canada.

Graham Strachan, President and CEO, Allelix Biopharmaceuticals and Ed Badovinac, Professor of Telecommunications, George Brown College, a Director, The Empire Club of Canada and Chairman of the Yearbook.



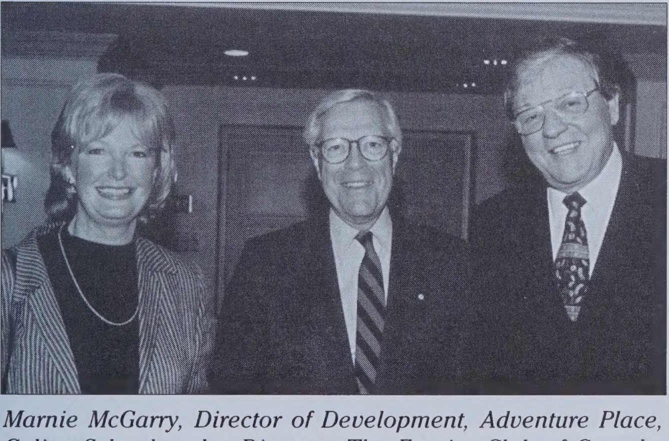
The Hon. Barney Danson, Honorary Director, The Empire Club of Canada, MGen Reginald Lewis, a Past President, The Empire Club of Canada, and Youssef Nasr, Executive Vice-President, Hongkong Bank of Canada.



Lunchroom Reception Committee Empire Club Directors, Gordon Steele, Club Archivist, Bill Duncan, Reception Committee Chairman and Edward (Ed) Badovinac, Chairman of the Yearbook.

Julie Hannaford, President, The Empire Club of Canada and Lawrence Tapp, Dean, Richard Ivey School of Business.

Ed Badovinac, Professor of Telecommunications, George Brown College, a Director, The Empire Club of Canada and Chairman of the Yearbook, Jocelyn Badovinac, U.E. M.Ed., York Board Teacher of English as a Second Language and Bill Gates, Chairman and CEO, Microsoft Corporation.



Marnie McGarry, Director of Development, Adventure Place, Calico School and a Director, The Empire Club of Canada, Knowlton Nash, President, Canadian Journalism Foundation and The Hon. Roy McMurtry, Chief Justice of Ontario.

Eric Jackman, President, Invicta Investments Incorp. and a Past President, The Empire Club of Canada and Preston Manning, Leader, Reform Party of Canada.

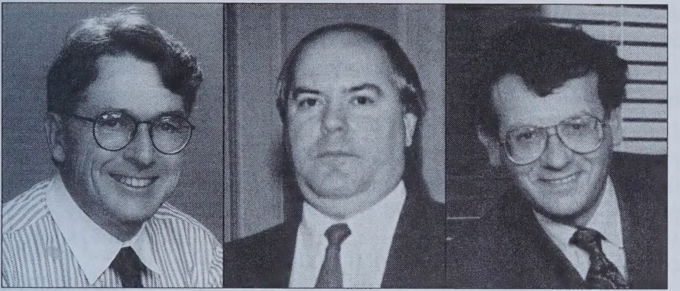
Douglas Todgham, Vice-President, The Canadian Institute for Advanced Research and Third Vice-President, The Empire Club of Canada, Joanne Sitarski, Head Girl, Branksome Hall, Joyce Kofman, Former Chairperson of the Board, Branksome Hall, a Past President, The Canadian Club of Toronto and Chairperson, The Conference of Independent Schools.

Lis Angus, President, Angus Telemanagement, Patrick Daly, Executive Director, Canadian Business Telecommunications Alliance, Carol Stephenson, President and CEO, Stentor Resource Centre Inc. and Pasha Peroff, OAC Student, Lawrence Park Collegiate.

Mary Byers, Author and Historian and Honorary Director, The Empire Club of Canada and The Hon. John Savage, Premier of Nova Scotia.

Dr. Catherine Henderson, President, Centennial College, Douglas Todgham, Vice-President, The Canadian Institute for Advanced Research and Third Vice-President, The Empire Club of Canada, Bill Laidlaw, Director, the Empire Club of Canada and Director, Government Relations, Glaxo Wellcome Inc. and Jocelyne Cote-O'Hara, Telecommunications Consultant and Former CEO, Stentor Telecom Policy Inc. and Director, The Empire Club of Canada.

Philip Olsson, Vice-President, RBC Dominion Securities, Julie Hannaford, President, The Empire Club of Canada and Robert Grandy, Chairman, Merrill Lynch Canada, signing the club guest book.



January 16, 1997

Donald Coxe

Chairman, Harris Investment Management

Michael Manford

Chief Economist, Scotia Capital Markets

Ira Gluskin

President, Gluskin Sheff & Associates Inc.

INVESTMENT OUTLOOK—1997

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Carlyle Dunbar, Financial Journalist and an Honorary Director, The Empire Club of Canada; Rev. Bill Steadman, Minister, Rosedale United Church, Joseph Oliver, President and CEO, Investment Dealers Association; Gerry Sheff, Chairman and CEO, Gluskin Sheff & Associates Inc.; John Madden, Head, Fixed Income, ScotiaMcLeod Inc., Gilles Ouellette, Vice Chairman, Nesbitt Burns, Gene McBurney, Managing Partner, Griffiths McBurney & Partners; Blake C. Goldring, Senior Vice-President, National Sales and Marketing, AGF Management Limited and a Director, The Empire Club of Canada; Tom Hockin, President and CEO, The Investment Funds Institute of Canada; Jim McKnight, Vice-President and Director, Goepel Shields

& Partners Inc.; and Lawrence Bloomberg, Chairman, First Marathon Securities Inc.

Introduction by Julie Hannaford

Over its 90-year history as North America's only speaking club of record, The Empire Club of Canada has been addressed by more than 2,500 men and women who have distinguished themselves in politics, industry, science, and statesmanship. Not surprisingly, our audiences for such addresses shift in terms of numbers and constituency in accordance with the topic and the speaker.

But if there is one thing that Directors and Officers of The Empire Club of Canada have learned, it is that we do best when we also respond to perceived interests in the Canadian community that makes up our audience. We have also learned that interest undergoes a dramatic transformation between the months of December and January. Almost exactly one month ago, The Empire Club of Canada closed off 1996 with its annual festive luncheon. At that time our audience is, if nothing else, mystical and often misty-eyed with thoughts of giving, goodwill and generosity overriding the atmosphere.

Almost as if transformed, each January, the eyes of our audience become cast over with the steely glint of saving.

Accordingly, the annual investment outlook offered by The Empire Club of Canada has evolved to respond to that which we understand occupies the minds and interests of our audience, and also as an alternative to the flights of fantasy that appear to dominate investment outlooks each January.

For those who wish to focus their investment decisions beyond baselines that involve the Super Bowl, the odd year, even year theory, the January barometre theory, the January effect, and the election hangover effect, we offer addresses from leading investment managers.

This forum as mentioned earlier is made possible by the generosity of our sponsors each year, and we are honoured and privileged this year to have the sponsorship of First Marathon Securities, Goepel Shields & Partners, Griffiths McBurney, Nesbitt Burns, and ScotiaMcLeod.

Our speakers this year are truly leaders in their industry.

Donald Coxe is Chairman and Chief Strategist of Harris Investment Management, and Chairman of Jones Heward Investments Inc. He has been a bi-weekly columnist whom you have read and enjoyed in The Globe and Mail for the last nine years. His 27 years in institutional investing include a decade as CEO of a

Canadian investment counselling firm, and six years on Wall Street as a sell-side portfolio strategist advising institutional investors.

Michael Manford as Chief Economist at Scotia Capital Markets has been watching North America's Capital Markets for 20 years. Independent surveys rank Michael as one of Canada's top economists, and his bi-weekly letter, the Capital Markets Report is one of the most highly regarded guides to North American investment trends.

Ira Gluskin, President and Chief Investment Officer of Gluskin Sheff & Associates Inc., has acquired an international and legendary status as one of Canada's leading security analysts and most provocative and witty speakers who has brought wit and wisdom to the once rather dry field of financial forecasting. Together with Gerry Sheff, in 1984, he co-founded Gluskin Sheff & Associates Inc. He has been a regular columnist for the Financial Times and the Financial Post. His writings and his speaking engagements have made him synonymous with provocative, insightful, and unfailingly witty commentary on a topic once considered the domain of less than inspiring speakers.

Please join me in welcoming our guests of honour to The Empire Club of Canada. Donald Coxe will be addressing our luncheon meeting, followed by Michael Manford and Ira Gluskin.

Donald Coxe

Thank you, Madam President and ladies and gentlemen. It is a pleasure to be with you this afternoon. My challenge is to give you in 10 minutes, a forecast for the global economy and global capital markets for the year, a truly daunting challenge. In preparing myself for this, I have researched the works of America's best known expert on giving you lines to use in speeches, and he's the most quoted American of our time: Yogi Berra. He had two extremely useful ones for me. First he was asked about forecasting, and he said, "Forecasting's awful difficult, particularly about the future." But on another occasion, he illustrated something that all of us forecasters need, which is to constrain the forecast. He was asked to forecast the impact on baseball, of the upcoming marriage of Joe DeMaggio to Marilyn Munroe. And he said, "I don't know what the impact on baseball will be, but it sure as hell beats rooming with Phil Risuto."

I come to you from Chicago, which is the centre of the world's futures industry. The entire ethos is permeated by the fact that that's where the futures industry is. The two leading sports teams in Chicago are, as one might expect, the Bulls and the Bears. I have discovered that probably the best single forecasting tool there is to see which of those teams is doing well. It is a fact that during the Michael Jordan era of the nineties, which has been a sustained bull market, the Bulls have been the championship team. Now there was some talk that this year the Bears might really do well and make it to the playoffs and there were a lot of bearish forecasts out there. It didn't work; the Bears didn't make it to the playoffs. The Bulls once again won the NBA championship and the S&P was up 24 per cent. The Bulls are still doing well and the Bears are still doing badly, so therefore it's going to be another great year for the markets.

My forecast is that this is going to be a different kind of world for the global economy and capital markets than we have been used to experiencing. It is going to be a world in which, instead of worrying about inflation, we worry about deflation. In the few minutes I've got I can't go into this in a lot of detail, but I do suggest that the last thing that you think about in looking forward is getting inflation hedges. You just don't need that. It's like getting flood insurance in the Sahara.

If we look at what gave us the era of inflation, one factor was the Cold War, because governments spent a lot of money on armaments at costs plus. It meant that government was growing. We had an era in which big government was believed in, and governments kept doing more and more for people. We had a growing work force. There was a beautiful correlation between the growth of the work force, particularly of people between age 15 and 25, and inflation. We had a growing money supply. Central bankers for years loved to print money to support the growing government debts and expenditures. Then we had aggressively growing banks. We had a banking era where the banks loved to lend money. We had then a situation of growing union powers. We had a situation in which there were no special technological breakthroughs. Technology was improving, but nothing that really changed the cost structure that much. Those were the things that gave us the era of inflation which then exploded when we had some major commodity price rises in the seventies.

That was a period in which the best asset to own was gold. That was the store of value. Well ladies and gentlemen, the game is over. Look at each of those facts. The Cold War ended in 1989. And that was the peak for the Japanese stock market, which was the most inflationary market at that time, and a long bear market thereafter. Governments more or less stopped growing and started shrinking. It took Canada a while to figure that out. Canada was very late to understand what was going on in the world. After all, this province actually elected Bob Rae years after the rest of the world had swung far to the right. But eventually even Canada caught up, which was a sign that the whole world was understanding where things were at. The work force stopped growing because of the declining birth rate. Central bankers who had been through the period of the seventies and had seen inflation spent their time fighting inflation. Banks got beaten up so badly by Third World debt, and then by real estate loans, that most of them started (with the exception of French banks and Japanese banks) to look at their loan portfolios so they no longer were engines of inflation. Union power got constricted all over the world because of competition from the Third World which became suddenly equal to the First World. Fifty per cent of global GDP now is the so-called Emerging World. And the cartel mentality, which had allowed companies to get together to raise prices, was washed away. We had the technological breakthrough, the micro chip. Those things together have given us first, disinflation, and now outright deflation. If you adjust U.S. inflation statistics for how much CPIs overstated inflation, the United States is already on the edge of deflation, except for oil and gas prices. The good news for you Canadians is that's one sector where you are still getting price increases. They are going to be hard to find elsewhere.

On a global basis this means that we've entered an era in which there will be two kinds of stores of value: long-term bonds of countries whose currencies have stopped being devalued, and Canada is near the head of that class, so that's the good news. The other asset class will be the companies that are true global companies in their ability to either serve the current baby boomer and retirement class with wealth management, or are able to serve the consumer needs in the new emerging middle class all over the world. It's these global companies which will become the new store of value. The bad news is that gold isn't going to be a store of value again for a long, long, long time. Now, oddly enough, oil and gas stocks fit into this on a global basis, because the big increase in demand for oil and gas is coming from those formerly poor countries. You take somebody in China off a bike and put them on a motorcycle—huge increase in energy demand. And that's what we're seeing.

The great global banks, those that are involved in wealth management and those that have cleaned their loan portfolios, have a new era ahead of them, even in deflation. But the most obvious stocks in this environment are companies like Nestle, Proctor and Gamble and Gillette—companies that have a global franchise, know how to serve that franchise, and can serve it in the emerging markets. We also have the companies that are driving deflation by lowering price, which is the global computer and software companies. That includes companies such as Microsoft and Intel. And finally we have the global agricultural stocks—the companies that are improving food production around the world, whether through fertiliser or technology.

Those are the companies that are driving the world as it creates a new kind of environment. That environment will not be inflation; it will be fundamentally deflationary. It's good for those kinds of financial assets; it's horrid for inflation hedges. That's my outlook. Thank you.

Michael Manford

What I'd like to do today in 10 minutes (and most economists can't say hello in 10 minutes) is to go through the U.S. economy and then tell you the good news on the Canadian economy.

Let's talk about the U.S. The consensus forecast for the U.S. economy was that the economy would be growing slower at two per cent, the Fed would have to do nothing, there'd be no inflation, and nobody would have to worry about inflation. Somebody forgot to tell the bond market.

What's really happening? What would you think of an economy whose exports were growing at five per cent? Now that's mostly because of our largest trading partner—no, not Japan; Canada is growing. What would you think of an economy that has capital spending growing at seven or eight per cent because corporations basically don't want to hire anybody and they're hiring computers instead? What would you think of an economy where inventories are scarcer than ethics in Washington? What would you think of that economy? How are you enjoying the recession so far?

Well everybody says: "Yes, but Michael, the U.S. consumer is deeply in debt." My comment to that is: "They are Americans. This is normal." The interest payments on that mountain of debt are lower than they were in 1989. In fact, all that tells me is the U.S. consumer is back to spending his cash flow.

The story on cash flow in the U.S. economy is actually a very bright one. We saw a while ago when the non-farm payrolls came out that U.S. employment growth continues to stun people, coming along stronger than expected. We think that it will probably average two and a half per cent this year. It's not exciting, but it's okay. Real wages are growing, and that's very important because it means the average person who had a job all the way through the business cycle is getting real income growth.

So what do you think of this economy? It's got five-per-cent export growth. It needs to build a lot of inventory. It's got seven-per-cent capital-spending growth and the consumer is humming along at three per cent. What it means is the U.S. economy, contrary to the consensus forecast for this year, is going to probably grow in the area of three per cent.

I am the bearer of bad tidings, because that is not a non-inflationary rate of growth for the U.S. economy. I agree with a lot of what Don has just said, but in terms of cyclical moves for inflation the U.S. is in one of those up trends. Wages are growing about four per cent right now, and this Canadians would kill for. We're looking at a situation where our productivity growth is dying and I wouldn't be surprised at all if, with food prices and energy doing what they're doing, inflation in the United States reaches three and a half, maybe four per cent briefly. That's what's bothering the bond market.

I think the Feds are finally going to move. The Fed has sort of been in denial phase here for a while. The Feds are going to be in the game to enforce, to tighten, to put a mid-course correction into the U.S. economy here this year, probably raising rates by about 75 basis points. Before you start using the "R" word, that's recession, it takes a lot more than that to slow the U.S. economy down. That's a mid-course correction.

Long-term bond deals are in their bear phase. We think this phase will be over in the next two or three months. We're still looking for about seven and a half per cent on the long-term bonds as the bond markets do what they always do. That is, having been wrong about the two-percent no-inflation forecast, they will go way over to the other side and start worrying about the hyper-inflation and the economy growing too fast. Buy them at seven and a half because I think they will be at six-fifty at the end of the year.

But enough of the U.S. economy. Let's get to the true driving force behind North America: Canada. Don't laugh. That wasn't funny. It sort of reminds me of a Yogi Berra story. I'm a fan of Yogi too. Yogi was asked in spring training by the equipment manager, "Yogi, what's your hat size?" He said, "I don't know, I just started spring training."

Last year the Canadian economy sort of ran at the pace of an 80-year-old racing car. This year is the payoff year. Everybody has been asking me for years, "Michael, we've been through five years of hell in this country. Fiscal drag to death and the economy is not doing anything. Why?" This is the payoff. If you look at the numbers coming out of the U.S. economy lately, its industrial sector, where 85 per cent of Canada's exports go, is on fire. And we think that probably the U.S. economy is going to have our exports growing about 15 per cent this year. That's 43 per cent of the Canadian economy sort of shifting from cruise speed to attack speed. And that's going to be a huge, huge boom for the Canadian economy. We too don't have enough inventories. And I think it's going to be very difficult for us to build them in the first half of the year with exports growing so fast. So all you business types are going to be very busy in the second half of the year trying to read the inventories.

Capital spending is growing at a fairly good pace. The real issue has always been the Canadian consumer. In

1994 we lit up exports. We built inventories like there was no tomorrow. We had capital spending coming out of our ears. And the consumer just couldn't respond. The reason is that this country got very close to killing the goose that lays the golden egg. For instance, the province of Ontario gets 85 per cent of its revenue from its consumers through sales taxes and income taxes. When you load the consumer up with the fiscal drag that we have, which added up to five per cent of our take-home pay, you're looking at a situation where the consumer couldn't respond.

But that was last year; this is 1997. I call this the year that is going to be the metamorphosis for the Canadian consumer. The first half of the year is going to look a lot like last year, but I've got good news. Real wages have caught up to inflation and we think that's no trick in Canada. We think they'll exceed inflation by a half a percent first half of the year, maybe one per cent towards the end of the year. Don't worry, we have lots of productivity to take care of that. But that's very unlike this time last year when the average person who had a job all the way through the business cycle, both of them, was suffering with a 1.3 per cent decline in income. They're now ahead of the game. Employment growth has picked up, and all of that suggests to us that the consumer is going to be looking at two-and-a-half per-cent growth in employment, about one-per-cent increase in real wages and something like three-and-a-half per-cent increase in real take-home pay by the end of the year, compared to 0.6 per cent at the end of last year. A lot of it's going to get spent. You saw some of that at Christmas; we'll see it again. And it means the Canadian economy—hold on to your hat—is going to grow at three-and-a-half per-cent this year, something in the order of 1.4 per cent last year.

So the central bank raises its rates tomorrow, right? Wrong. There is no inflation in Canada—and in fact, Canada, if you measure it with all the adjustments, is in deflation. Labour cost growth in Canada is zero, adjusted for productivity. That is the core rate of inflation. When you look at the Bank of Canada's core rate of inflation, it's going to sit in the bottom half of the target bed all year. In other words, get used to three-per-cent prime rates, because you'll have them at least through Thanksgiving.

Long-term bond deals: well I think we've had most of the back-up. As I said, the U.S. might give us some trouble, but we're looking for the Canadian dollar to rise up to the 130, 133 range. We think foreign investors will come in here and buy. So if I saw Canada at seven-fifty, which is not far from here, I'd be a buyer. I think they'll be at six-fifty by the early part of next year.

And the final piece of the puzzle? I hope you don't have a corporate president living beside you, because by this time next year they're going to get insufferable. Corporations in this country are going to make so much money, it's going to be unbelievable. We're looking for corporate profits to be up about 30 per cent to 35 per cent this year, versus zero to five per cent last year. My only problem with this whole thing is that I don't know how many bonds to buy and how many stocks to buy. But one thing I do know, is that it's going to be a very profitable year as Canada finally gets paid off. Thank you very much.

Ira Gluskin

Good afternoon, ladies and gentlemen. Someone asked me yesterday what I was going to say, and I said I was looking forward to finding out as much as them. I knew that whatever Donald was going to say I was going to go the opposite way. I've known him a long time and he is sincere about deflation but he's a home-run hitter, and he might go for inflation tomorrow. Manford publishes all the time, so I knew what he was going to say, but he was a little more emphatic.

Now I'm an investment manager. I'm sitting here minding my own business with a little bit more than a billion dollars in Canadian and American stocks. The likelihood of me standing up and telling you that these stocks are going down the drain is not too high. So that's the problem. One of my associates used to say I was congenitally bullish but I disagree with that.

If you want to learn about the investment business you should read Barrons. Barrons is a terrific publication. But every week since I was a child, Barrons has been negative on the stock market. And every week they find one brilliant person who can tell you about something that's really going to go wrong. And Barrons is no different from other financial press. The essence of the job is to figure out whether or not the so-called Goldilocks economy can continue. Now, Cox just told you there was going to be deflation, Manford hinted there might be inflation. Look every day in the Toronto Globe and Mail, the Financial Post, the Wall Street Journal, the New York Times, and wherever else, out of say 15 articles, five will say there's about to be deflation, five will say there's about to be inflation, and five will say things are going to stay the same.

We have been here over an hour. These two guys are profound but no-one has mentioned the province of Quebec. If we go back a year and a quarter when the Canadian stock market had lagged behind every stock market including Ecuador for decades, what was the reason? Well, we had a bunch of rotten politicians, we had rotten economics and we had an unsolvable communication problem. I don't know how it got solved. I don't read the paper. I go right to the business section, I must admit. But if it was solved, I missed it. So this is the principal risk in the Canadian stock market. This is why you wouldn't put all your money into Canada.

I agree with Manford. The Canadian economy is terrific. I've discovered that there actually is a bit of a barometre. In my former life I used to be a real estate analyst and I noticed that if you'd followed real estate it was quite predictive of the economy. For those of you who don't know, the real estate economy is having a tremendous recovery. There are very few Canadian public real estate companies so there is very little coverage about this, but it is going on as we talk. Now, it is not that surprising. The U.S. has had a great real estate recovery for about three and a half years. Well, Canadians are a little slow to learn about the rest of the world, but it is happening. We're just two years behind. And the economy, the real estate economy, is recovering as we talk. And so I'm very positive about the Canadian economy.

But the big issue is not about whether the economy is about to go down the drain. There are people who think that there is something wrong with the stock market. There are these five out of 15 mentioned earlier. It's the same thing they said for roughly two years every week in Barrons. They say that the stock market is completely fuelled by a mutual-fund boom resulting from low interest rates, and that basically these are uninformed people who otherwise would be putting their money in the bank. They have been throwing their money into mutual funds without knowing why and this has caused mutual-fund managers, who are overgrown schoolboys, to throw their money into the stock market indiscriminately. This is going to end and when it ends there will be a collapse because most of the people who bought mutual funds are greenhorns. They don't know anything about the bear market. When they see a bear market they'll be very unhappy and they'll redeem, which will cause all these worthless stocks to be sold because they were of no fundamental value in the first place.

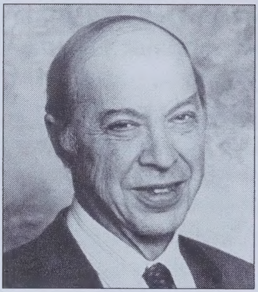
You can read this every week in Barrons. And, sometimes, I'm afraid, it is true. But then I looked around in Canada, a country I have studied for a long time. I'm not biased. We don't sell mutual funds but I know all the mutual-fund managers. I was at this business many years ago when it was very, very limited, and I've watched it grow. Some of our big stocks are mutual-fund management companies. The people who manage Canadian mutual funds are just as conservative as every other Canadian manager. There is a boom in Canadian mutual funds. There's millions of dollars of advertising going on. Canadians are throwing their money into mutual funds.

And the point of it all is it's not a bad product. It's the only product for the masses that's as good as a high-class product. One of my big stocks is Four Seasons Hotels. I would never pretend to anyone that Four Seasons Hotels was the same price as Journey's End. You want a premium product, you go to Four Seasons Hotels. We're not bad managers. We're just as good as anybody else but I would never say that we're any better than some of the great mutual funds around. They offer a great product for the people, the people understand it and they're buying it. The mutual funds are very, very conservative. That's the whole point; you don't have to worry.

What are people investing in? What are the hot companies? They're called bank stocks. The problem in the stock market is that most of the action is in the big stocks. Medium stocks are sitting around minding their own business. Speculative stocks you can't give away. Gold stocks are in the doldrums. Technology stocks are in the doldrums. Canadians are inherently very conservative. The people that manage these mutual funds are just as conservative as anybody else. And they're not throwing their money indiscriminately because they really don't know how. The chance of a mutual-fund collapse in Canada is very small. If you look around you'll see that it's dominated by very, very conservative companies, and the managers are quite conservative, and there's a very modest amount of speculation. Now, I hope we'll get some speculation, and that the forecast here a year from now will say, wow, after that tremendous growth we've had in

Canada, now you have to watch out. But I don't think that's the case. I would be very positive about Canada. Thank you very much.

The appreciation of the meeting was expressed by Blake C. Goldring, Senior Vice-President, National Sales and Marketing, AGF Management Limited and a Director, The Empire Club of Canada and Julie Hannaford, Partner, Borden & Elliot and President, The Empire Club of Canada.



January 23, 1997

Leslie Dan

Chairman and CEO, Novopharm Limited

THE C-91 REVIEW BALANCING IN PHARMACEUTICAL PATENT POLICY IN THE INTERESTS OF ALL CANADIANS

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Monty Larkin, Associate Director, The Ireland Fund of Canada and an Honorary Director, The Empire Club of Canada; Jack R. Mills, Professor of Chemistry (Retired) and Vice-President, United Nations Association; Rabbi Arthur Bielfeld, Temple Emanu-El; Dr. Michael Dan, Chief Executive Officer, Novopharm Biotech Inc.; Alicia Drinkwater, OAC student, Humberside Collegiate; Brenda Drinkwater, President, Canadian Drug Manufacturers' Association; John McNaughton, President, Nesbitt Burns and a Past President, The Empire Club of Canada; Rose Wolfe, Chancellor, University of Toronto; Anne Libby, Co-owner, Libby's of Toronto Art Gallery and a Director, The Empire Club of Canada; Jack Kay, President, Apotex Inc.; Dr. Charles Tator, Professor and Chairman, Division of Neurosurgery, University of Toronto; Anna Dan, Mr. Dan's charming and lovely new bride; Deszo Horvath, Dean, York University; and Donald Johnson, Vice Chairman, Nesbitt Burns.

Introduction by Julie Hannaford

If it is true that one of the elements of a democratic society is its tolerance for and maintenance of an atmosphere in which the free expression and exchange of ideas and debate will flourish, then it must also be true that the hallmark of a truly civilised society is that society's enthusiasm for the expression and exchange of ideas and debate over issues of the day. The Empire Club of Canada, having served as a public forum in which national and international leaders in business, science, politics, and the arts have addressed audiences for the last 93 years, serves as an enduring sign that Canadians and in particular those who make up our audience continue to place the importance of debate, the free exchange and expression of ideas, and the addressing of critical issues of the day as a priority in the maintenance of a civilised and democratic society.

The issue which our guest addresses today, the regulation of drug patents at the federal level under Bill C-91, is an issue which is surely one of the most critical issues affecting our society today, particularly as demographers tell us the baby boomers, who once thought in their twenties they were immortal, are now facing in their late forties and fifties the ever-increasing prospect not of mortality but rather sickness.

Our health industry therefore has placed upon it demands created by a scientific research community that allows us to get better faster, and the countervailing demands of a society preoccupied with fiscal responsibility and restraint, to make us better not only faster but in a manner that is economically efficient.

Hence the debate over Bill C-91 explores not only the differences between the generic and the ethical pharmaceutical interests but it explores the frontiers of that which we regard as pillars of our society: the rewards for innovation in research, the demand for competition, and the demands of the evermore empowered consumer to be treated fairly, but at the same time, to receive the best that a competitive global economy can offer.

The Empire Club of Canada is honoured and privileged to have our guest Leslie Dan address the issues raised by and surrounding Bill C-91, not only because of his well-established expertise and reputation in the field of pharmaceutical manufacturing and research, but also because of his leadership in the Canadian community.

Fifty years ago, in 1947, Leslie Dan arrived in Canada as a young war refugee. Within seven years, he had graduated from the University of Toronto School of Pharmacy and in 1959 he completed a Masters Degree in Business Administration.

Leslie Dan founded Novopharm Limited in 1965, with a mandate to produce high-quality moderately priced pharmaceuticals for the Canadian market. Today, more prescriptions are filled with Novopharm products than those of any other pharmaceutical company in Canada. Novopharm now has five divisions: a generic manufacturing division which distributes across Canada, Europe, Central America, the Pacific Rim and the Middle East, a consumer-products division, a biotechnology division, which is engaged in research in the field of cancer treatment, an innovative pharmaceutical division (Eldan Pharmaceuticals), and a vaccine and blood derivatives division located in Hungary.

Novopharm employs over 3,000 people worldwide, including a staff of over 235 people devoted to research and development.

Leslie Dan should not however be known solely for his leadership in generic pharmaceutical manufacturing and research development. Rather he should be equally well known for his personal philosophy which treats giving as an integral element of his life. In 1985, Leslie Dan founded the Canadian Medicine Aid Programme, an organisation which provides life-saving medicines and aid to the sick in the third world. He has been a supporter and donor to a wide range of health-related programmes, including the Dan Family Chair of Neurosurgery at the University of Toronto, the Novopharm/Stanley Chair in Pharmacy at the University of British Columbia, the Samuel Lunenfeld Research Foundation at Mount Sinai Hospital, Casey House, a Toronto AIDS hospice, and a number of other pharmacy-oriented programmes in Canada.

Mr. Dan sits on the Board of Governors of Doctors Hospital, and Mount Sinai Hospital, and on the Rotman Research Institute Committee at the Baycrest Centre for Geriatric Care.

He is a Member of the Order of Canada, he is the recipient of an honorary Doctorate of Laws Degree from Dalhousie University and the University of British Columbia, and he is the recipient of the Award of Achievement from the Canadian Pharmaceutical Association.

Mr. Dan addresses The Empire Club of Canada today not only from the perspective of a leader in the pharmaceutical industry, but as a true leader and example of dedication to the larger society in which we as Canadians all live.

Please join me in welcoming Mr. Leslie Dan, Founder, Chairman, and Chief Executive Officer of Novopharm Limited to The Empire Club of Canada.

Leslie Dan

Good afternoon ladies and gentlemen.

I would like to thank you, The Empire Club, very much for giving me the opportunity to speak to your members on the issues facing Canada's generic drug industry, in particular the upcoming parliamentary review of the federal drug patent legislation, known as Bill C-91. My presentation conveys the views of the Canadian Drug Manufacturers' Association.

The upcoming review, currently scheduled to begin in February, will mark another turning point for Canada's pharmaceutical industry, and the future of our health-care system. It represents an important opportunity for the government of Canada to take action in order to balance the interests of Canadian consumers, the generic drug industry—which is primarily Canadian-owned—and those of the foreign-owned multinational companies which manufacture brand-name drugs. We all recognise that balancing these diverse interests is very complex and I will try to explain it to you so that you get a clear understanding of the main issues. First let me explain what I mean when I use the term "balancing."

The pharmaceutical industry in Canada, both brand-name and generic companies, produces important medicines which are an essential component of the Canadian health-care system, together with physicians, nurses, pharmacists, hospitals and long-term care facilities. Our health-care system is one of our greatest achievements and it is needed for the social well-being of our people and our country. It must continue to be accessible and affordable to all citizens regardless of their income. You might say that it is virtually enshrined in the Canadian constitution. Our universal health-care system has taken many years to develop and it is admired by many countries around the world. It must not be lost.

The task of our federal and provincial governments is to see that the upcoming review of Bill C-91 will fairly and equitably balance the interests of the four major parties which will be affected by the changes of any new pharmaceutical legislation. Who are the four parties?

First, the Pharmaceutical Manufacturers' Association of Canada (PMAC) representing the views and interests of the innovative brand-name pharmaceutical manufacturers, virtually all of which are foreign-owned. Second, the CDMA representing the views and interests of the generic pharmaceutical companies, most of which are Canadian-owned. CDMA members consist of 13 companies most of which are comparatively small in size with the exception of Novopharm and Apotex which are large operations. Third, the governments which are the payers of medications supplied to the senior citizens and the welfare patients, representing about 44 per cent of the total medications consumed. And the fourth party, private payers, employers who pay for drugs through employee-benefit plans representing about 44 per cent of drug costs and the non-insured consumers buying the medicines directly at about 12 per cent.

It is important to understand that under proper balancing none of these four parties should be favoured at the expense of the other three parties. For example, if we allow medications to be too expensive, the public will have limited access to them. Alternatively, if the price of the medicines is excessively depressed by the government, then the pharmaceutical manufacturers will operate at a very low profit or even at a loss and cannot expand or continue their research activities.

The thrust of my presentation to you will be to explain and prove to you that the current legislation, Bill C-91, favours excessively the large brand-name pharmaceutical manufacturers at the expense of Canadian consumers and the generic industry. Consequently this anomaly has to be rebalanced so that the public will have access to affordable medicines and the generic pharmaceutical industry can continue to develop into a fully integrated national pharmaceutical industry and make its important contribution to the health care of our citizens. This will be the task of the committee members who will review Bill C-91 and we hope that they will redress the imbalance which presently exists.

Let me also state clearly that the members of the CDMA believe that brand-name companies which invest funds in developing new and effective medications are entitled to receive a fair return on their investments. The fundamental questions are the following: "What period of time does it take to recover their R&D investments, realising that most drugs have worldwide sales—and Canada represents only two per cent of the total world drug market? Should the manufacturers be allowed to recover excessive returns as a result of extended patent protection?" We believe, and according to a 1996 Environic survey two-thirds of Canadians share our views, that five to 10 years of exclusive market monopoly is adequate to recover R&D expenses although we recognise that the PMAC companies want much more.

Let me briefly consider the health-care system in Canada. It is generally known that the health-care system in Canada is under great stress. Its costs are rising dramatically—you might say alarmingly—for we have designed a system which we simply cannot fund adequately. The Ontario government has decided to close a large number of hospitals, reduce the number of hospital beds, and reduce hospital operating budgets and is currently engaged in a dialogue with the physicians to roll back their fees and place doctors in geographic districts where medical care is lacking. The total health-care bill in 1994 amounted to $72 billion in Canada of which about $9 billion represented medications. What is somewhat disconcerting is that the cost of drugs is rising significantly faster than the annual inflation rate, due to the aging population, greater use of drugs and the high cost of new medications being introduced by the brand-name companies. Many new drugs cost $1–2 per tablet and we have now one product used by patients with migraine headache which costs $15 per tablet. It is recognised that many of these new drugs are not necessarily better or more effective therapeutically than the older medications. They are more-or-less a desire by the brand-name companies to come out constantly with new drugs in order to increase market share and increase their annual sales. Let me give you some statistics. In the province of Quebec, the provincial drug programme in 1986 amounted to $300 million. Nine years later, in 1995, it skyrocketed to $900 million. The average cost of medicine in 1986 amounted to $8 per prescription and in 1995 it increased to $22. Similar drug-cost increases occurred for other provinces.

Well, one does not have to be a rocket scientist to figure out and extrapolate that within 10–20 years, or even sooner, something drastic has to be done to lower drug costs. I might add that prices of generic drugs are constantly decreasing due to the severe competition among the generic companies and also due to the price ceilings set by the provincial governments which have not allowed any price increases for the past four years.

Let me say a few words about the history and the impact of the generic industry in Canada. Generic pharmaceuticals represent medications which are put on the market after the various pharmaceutical patents have expired. Generic pharmaceuticals are not new since even before 1965 several products appeared on the market such as phenobarbitol, digoxin, quinidine, and many others and nobody paid much attention to them. They become a concern to the brand-name manufacturers when a large number of generic products appeared on the market and the pharmaceutical patents were challenged in the courts by the generic manufacturers. The real importance of generic drugs became evident in the early 1960s when several governmental studies took place to prepare our nation for a universal health-care programme. This resulted in the famous Harley Commission hearings during 1967 and 1968 which studied drug costs and prices. I personally attended most of the sessions. The substance of the findings was, in the words of David Henry, the Director of Combines Investigation, that "drug prices were higher than need be" and to correct this anomaly Bill C-102 was passed by Parliament which introduced compulsory licensing. This legislation, in essence, allowed the generic companies to petition the Commissioner of Patents to issue a legal document, or a compulsory license, to allow generic companies to market medicines which were still under patent by paying royalty to the patentee to compensate for research investments. The amount of royalty was determined by the Commissioner of Patents. As a result of this legislation there was an unprecedented boon to the generic companies to expand rapidly and make available good quality generic pharmaceutical products to the public at affordable prices, usually at half the cost of the brand-name drug prices or less. To say that the brand-name manufacturers did not like this legislation is an understatement.

The Liberal government at the time was convinced that drug costs needed to be lowered, Canada needed to develop an indigenous industry and this should be accomplished by competition among the generic and brand-name companies rather than by setting drug prices. Yes, the brand-name companies did not like this legislation but let's face it, it worked and drug prices were reduced resulting in cost savings to the public amounting to hundreds of millions of dollars as demonstrated by later studies. The Eastman Commission estimated generic drugs saved Canadians $211 million in 1983. This figure had risen to $420 million in 1992 according to respected pharmaco-economist Dr. Stephen Schondelmeyer. Savings in 1995 due to generics were an impressive $800 million according to a study just released by the Canadian Drug Manufacturers' Association.

One can easily guess that the brand-name companies exerted relentless pressure upon the subsequent governments to regain their patent protection. Eventually they were successful when the Mulroney Conservative government passed Bill C-22 in 1987 and later Bill C-91 passed in 1993. These two pieces of federal legislation gave extra patent protection to the brand-name companies. Bill C-22 provided 20-year patent periods and assured market monopolies of seven years under specific circumstances and in most cases 10 years of protection. As an added stimulus to Canadian innovation, pharmaceuticals discovered in Canada, enjoyed full 20-year patents exempt from compulsory licensing. However, virtually no drugs were discovered during this time and little basic pharmaceutical research of any importance was carried out in Canada. Research that was carried out consisted primarily of clinical studies to clear medications at the request of HPB. Compulsory licensing, however, was still in existence, albeit under specific restrictions.

Bill C-91 passed in 1993 was a major blow to the generic industry and to Canadians since it totally abolished compulsory licensing and did so retroactively. This means that compulsory licenses issued from December 1991 and February 1993 were retroactively revoked without any compensation to the generic companies which spent considerable funds to obtain the licenses and carry out clinical studies on generic products for regulatory clearing purposes.

Bill C-91 introduced several restrictive legislative features which strongly favoured the brand-name companies at the expense of the consumer and our national generic industry. One of the most odious aspects were the special regulations under Sect. 55-2 of the Patent Act, or "linkages" as they call them, which were literally slipped in quickly without any parliamentary debate or consultation with the generic companies, the provinces and others who pay for drugs. This section can delay the launching of generic pharmaceutical products by two and a half to three years by simply allowing the brand-name companies to state that the generic products about to be launched are violating existing patents. Launching is therefore delayed until the legality of the patents is cleared up in the courts. Since we all know how slowly courts operate, we can all guess how long it takes to resolve legal issues.

According to studies carried out by Professor Schondelmeyer the impact of Bill C-91 legislation over a period of 20 years will come to about $4–7 billion, a significant extra sum to be paid by the users of medications.

To illustrate the importance that the generic industry is playing in the pharmaceutical market let me provide you with some basic statistics. The most recent IMS figures available show that for the 12 months ending in September, 1996, generic drugs accounted for 39.5 per cent of all prescriptions filled in Canada. From a cost point of view, they accounted for only 15.2 per cent of expenditures on prescription drugs illustrating the cost differences between generic and brand-name pharmaceuticals. Today generics are, on the average, 40 to 60 per cent lower in cost than their brand-name equivalent.

Let me deal briefly with the position of the PMAC companies as it relates to the upcoming review of Bill C-91 and how it will affect the development of the generic industry.

The foreign-owned brand-name companies presently received 20 years of patent protection as a result of the current Bill C-91. They argue that they promised the government to bring their R&D spending up to about 10 per cent of their sales. Therefore they are entitled to receive additional patent protection. Interestingly, multinational companies abroad spend as much as 15–18 per cent of sales on R&D. Now the brand-name companies are requesting a patent term extension of an additional five years. They further state that the innovative pharmaceutical industry is responsible for the development of new medications which offer us better health care, less hospital costs and because of this they deserve additional protection to recoup their investments. In addition they have indicated that if any negative changes take place in the review of Bill C-91 they may reconsider and decrease their R&D investments in Canada.

The CDMA members, understandably, do not agree with the PMAC views and their request for additional patent protection. Nor do most Canadians, 75 per cent of whom think drug prices are already too high, the length of patent monopolies should be reduced and overwhelmingly believe that patent policy should support domestic drug manufacturers over foreign-owned multinationals according to Environic data.

Furthermore, PMAC does not mention that during the last few years some 16 companies have shut down their manufacturing activities, eliminating jobs and have turned their operations into sales, marketing and warehousing facilities as a result of the worldwide restructuring programmes. Interestingly, the majority of the additional jobs in the pharmaceutical sector have been created by Canadian-owned companies.

There are several tactics which PMAC companies are utilising to extend their patent protection and to delay the entry of generic products into the marketplace. In our opinion, the most damaging, as mentioned before, is Section 55.2 or “linkages” which can delay the entry of generic drugs by 30 months or more by simply stating that generic drugs violate drug patents.

Perhaps at this point it might be useful to give you what we consider a more balanced picture of the use and impact of patents in the pharmaceutical industry.

As I mentioned before, when a manufacturer invests funds and talents to discover new drugs, in our view they are entitled to receive a reward and consequently drugs should be patented. What concerns the members of the CDMA is the abuse of the patent system. Patents provide a monopoly in the marketplace. They are a privilege, not a right. While theoretically they offer exclusivity for a product for 20 years, in reality a medicine has not one but several patents each expiring at different times. We call this phenomenon "evergreening." This means that additional patents can be issued for a single drug and they may be anywhere from 5–10 years over and above the original 20-year patent. Generic products are then delayed from entering the market, thereby stopping competition. Once the main patent expires then new patents may appear for the same drug such as the use and composition patent. This is not the end of this fascinating game. When all the important patents expire, the manufacturer may reformulate the drug and create a new dosage form with a new set of patents. For example, if tablets were on the market, the new formulation may be soft or hard gelatin capsules. Alternatively, if the original tablet was to be taken three times a day, now a new form of delayed-action medication may be developed allowing the tablet to be taken only once a day. Again a new set of patents is possible. In many cases the new form does not offer therapeutic advantages. It is merely a means to extend market exclusivity and delay the entry of competitive generic products. Obviously legislative changes to Bill C-91 are desirable to discontinue this charade.

It is important to understand the significance of the research activities proudly claimed by the innovative brand-name companies. Of course, they are entitled to reap benefits but how much is a fair amount that a consumer can afford to repay the real R&D costs. Let us admit that all industrial concerns have to conduct research otherwise they fall behind in the industrial race. The question is: "Who pays for the research?" When a company has a market exclusivity the research costs which maybe 10 to 15 per cent are factored into the price of the drugs. In addition, governments offer extra incentives so that R&D expenses can be written off, not at a rate of 100 per cent but at 120 per cent or even more under some circumstances. Thus the $1 research expense can cost 40–50 cents or less which is attractive to all manufacturers. The Canadian taxpayer is footing the bill for much of this research through a generous tax-credit system. It is important to note that less than one per cent of patents are held by Canadians. In addition, Canada has top-quality research scientists so that Canadian R&D work is accepted in every country.

Let me discuss briefly the CDMA position and our concerns. The PMAC companies claim that the generic industry is constantly expanding; therefore they are doing well. A closer examination reveals a different picture. Yes, it is correct that the generic pharmaceutical market is expanding on a worldwide basis; yet the generic companies find themselves in a difficult position and in many countries it is a profitless growth. In our view, the position of the generic companies has significantly deteriorated during the last few years. This was caused by the inability to increase drug prices since the provincial governments have not allowed any price increases in the last four years despite the fact that our operating and raw material costs are rising each year. Competition among the existing and newly entered generic companies has constantly reduced and eroded drug prices without adequate additional new-product releases which will be more apparent for 1997–1998 and in future years. The full impact of Bill C-91 will balloon between the years 2000–2010. In fact, all future sales forecasts indicate the slowing down of generic drug sales. The current Section 55.2 makes it difficult, if not impossible, to release generic drugs on the marketplace in time and as many as 100 court challenges effectively delay the entry of generic products. Canadian-owned generic companies will have difficulty in maintaining their R&D expenses which also may affect their innovative new drug programme.

It is significant to point out that the two largest generic companies, Novopharm and Apotex, are engaged in important innovative research activities. Novopharm's research expenses in 1996 amounted to about $35 million whereas Apotex spent about $56 million. Novopharm has 235 employees in its research department. A division of our company is engaged in innovative research to develop methods in cancer treatment. We believe that, in the not-too-distant future we shall come up with a more effective treatment for various forms of cancer ailments which will benefit patients worldwide.

Earlier this year, Apotex strengthened its biotechnology-based business with the acquisition of Cangene Corporation. One of Cangene's leading innovative products, WinRho SD has been used for several years for the prevention of hemolytic disease in newborns and has virtually eliminated that condition and now has new indications in the treatment regimen for AIDS patents.

It is an interesting observation that generic companies on a worldwide basis create a new market segment which has been recognised by the brand-name companies so that they are now slowly taking over and buying up generic companies on a worldwide basis. So now you have an interesting phenomenon whereby innovative brand-name companies are moving into the generic industry while the generic companies are moving into the innovative field.

Having reviewed the Canadian pharmaceutical industry, the position and the views of the brand-name and generic companies, let me present you with the recommendations of the CDMA member companies to the Canadian government and the special Review Committee on Bill C-91:

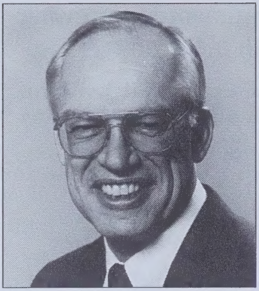
- The repeal of 55.2 should be addressed in February through an expedited review of the regulations;
- The government should not extend monopolies further through Patent Term Extension.
- The right to do research prior to patent expiry (Bolar provisions) must be maintained;
- The government should incorporate an export exception into the Patent Act to preserve Canadian jobs, i.e., adopt a "can do" rather than "can't do" approach to this problem. We understand this too to be a political decision;
- Health Canada should find a solution to preserving the right of Canadians to have products with the same active ingredients to be available in similar size, shape and colour;
- Restore the retroactivity of licenses which were issued between December, 1991 and February, 1993 and which were taken away.

In conclusion, let me say that we, the CDMA members, recognise the contribution of the PMAC companies launching new drugs in the marketplace and we believe that they deserve to recoup their financial investments.

It is our view that the present Bill C-91 excessively rewards the brand-name companies by offering too much and too extensive patent protection which adversely affects the consumers and the provincial governments by limiting the availability of important medicines at affordable prices. Bill C-91 seriously hampers the expansion and the viability of our nascent national generic industry. The time has come to rebalance this inequality and we urge the federal government to accept our recommendations as mentioned before.

I would like to thank you very much for your patience listening to my presentation which conveys to you the position of the CDMA, the generic industry which we hope will also guide our federal government in reviewing Bill C-91 during the forthcoming month of February.

The appreciation of the meeting was expressed by John McNaughton, President, Nesbitt Burns and a Past President, The Empire Club of Canada.



January 30, 1997

Verne McKay

Ombudsman, Royal Bank Financial Group

MANAGING DIFFERENCES WELL

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Gareth Seltzer, Vice-President, Private Banking, Guardian Capital Advisors and a Director, The Empire Club of Canada; Amanda Porter, OAC Student, Harbord Collegiate; R. Michael Lauber, FCA, Ombudsman, Canadian Banking Ombudsman, Inc.; Jim Bull, Partner, Ernst & Young; Robert J. Sutherland, Vice-Chairman, Royal Bank of Canada; Ann Curran, Principal, Lewis Companies and a Director, The Empire Club of Canada; Rev. Thomas Little, Rector, St. Mark's Church, Port Hope; and Walter M. Bowen, Q.C., Partner, Cassels Brock & Blackwell.

Introduction by Julie Hannaford

The late Northrop Frye, one of the world's leading literary theorists and philosophers, as well as a great Canadian, once commented that Canada was in his view one of the few countries where churches were designed increasingly to look like banks, while banks had been designed and built to look like churches. In his view, that said something about Canadian culture, and perhaps a uniquely Canadian attitude towards or reverence for dealings with money.

If Northrop Frye were alive today, he might comment upon how very different banking is today from what it was even 10 or 20 years ago. For the average retail banking consumer, the act of banking has become more and more an impersonal technological activity, carried out at ATM machines, over the telephone and, we are promised, in the next few years, through our laptop computers. Concurrently for the average retail consumer banks are monolithic, impervious, impenetrable, and formidable. At the same time, the actual contact that the average consumer may have with their bank no longer involves day-to-day transactions but, rather more often than not, disputes. As we become less and less connected by banking activity to people in the banks and when the average consumer's only contact with the bank arises when a problem arises, the perception by the average consumer of banks as a fortress approachable only by those with special access threatens the stature of banks in the Canadian community.

Failure to address the way in which banking is changed for the average consumer, and the way in which the average consumer perceives their relationship with a bank, is a major strategic mistake. One bank, the Royal Bank of Canada, has taken a step towards the resolution of this problem.

Our guest today is Verne McKay, a Senior Vice-President and Ombudsman at the Royal Bank Financial Group. The function of the ombudsman is not the marketing of financial services but rather to ensure that those served by the financial institution are treated fairly and properly. The role of the ombudsman arises from a recognition that growth of banking services and changes in the way in which the consumer does business with the bank gives rise to the need for better, more open and fair communication.

As Senior Vice-President and Ombudsman for the Royal Bank Financial Group, Mr. McKay overseas the stewardship of service commitments, codes of conduct, privacy codes and pledges to stakeholders. His mandate is to appraise conflict resolution methods within all businesses of the Royal Bank Financial Group and to apply conflict management techniques in specific disputes. He is charged with being independent and impartial and he reports to the Chairman and CEO.

Mr. McKay joined the Royal Bank in 1981 and before that he worked at the Export Development Corporation. Within the Royal Bank he has been Senior Vice-President for International Trade, Managing Director for Orion Royal Pacific Limited in Hong Kong, and the Senior Vice-President for Corporate Banking for Asia and Hong Kong, as well as a Senior Vice-President of the International Banking Network for Europe, Asia, Tokyo and Singapore.

Mr. McKay was appointed to the position of ombudsman in January of 1996. He reports to us on the developments and the effectiveness of this novel and unique approach to making our banks responsive to the Canadian consumer.

Please join me in welcoming Verne McKay, Senior Vice-President and Ombudsman for The Royal Bank Financial Group to The Empire Club of Canada today.

Verne McKay

Thank you Ms. Hannaford.

Good afternoon, ladies and gentlemen. I want to thank The Empire Club for giving me the opportunity to speak to you today about a trend which has taken on increased importance in the financial services industry: managing differences, or conflict management.

These days forward-thinking companies spend a lot of time developing strategies to grow their business by bringing in new clients. The way I look at it, it's a lot easier—and cheaper—for a business to keep a client rather than go out and win a new one. I'm quite sure that viewpoint is shared by just about every other financial institution in Canada.

Managing conflict is one of life's omnipresent realities. And it is a very natural occurrence, especially in the world of commerce. So before we go further, I want to make it absolutely clear that Royal Bank Financial Group thinks managing differences, and managing conflict well, is good for business. Why? It's good for clients and it's good for the bank because it enables them both to better understand and learn from each other.

We live in a very public society in which companies and individuals are held increasingly accountable for their actions. And the unfortunate reality is that more often than not, the mistakes and mis-steps receive far more attention than the accomplishments. We are often judged by what goes wrong, rather than what goes right. So our success depends on what we do to make our wrongs right. In many ways conflict management is about making those wrongs right. More importantly, it's about opening the lines of communications and working cooperatively to resolve disputes with fair, durable, mutually agreeable solutions.

When I took the ombudsman's job a year ago, I really didn't know what to expect. When we opened our doors we had no idea who would come through them. Now 12 months later, we have a much better sense of whom we are—and where we are going.

The banking community's initiative to establish an ombudsman exemplifies a very significant trend. Each of the major banks now has an ombudsman, and some of them are here with us today. Last May, the banking industry appointed the Canadian Banking Ombudsman for small business issues. I'm very pleased to have my colleague Michael Lauber here today as part of our head table.

There are several major issues that guided my office in 1996. Those issues and the trends that have emerged will continue to have a significant bearing on our direction in 1997 and beyond.

By definition, an ombudsman is an unbiased individual who helps to manage differences and resolve disputes. Working well with differences makes good business sense. Conflict management is all about our ability to understand the interests of our clients. It is also about our ability to proactively address those interests to improve our relationships and help create new opportunities. Whoever successfully manages differences will set themselves from the competition and ultimately win market share.

Let me touch on the five key aspects of Royal Bank Financial Group's conflict management programme:

- Dispute resolution;
- Interest-based negotiation;
- Independent, impartial review processes;
- Proactive investigation and recommendations; and
- Preparations for the future.

Let's first discuss dispute resolution. It's a process of thoughtful, methodical steps up a staircase. The bottom step is prevention. The next one is negotiation. If negotiation fails, move up to mediation. From there, the next step would be arbitration.

For example, one case we looked at last year came to us after years of negotiations, suits, and counter-suits. Every attempt at resolution had failed. By the time the case came to our office both sides were battle-weary. We suggested mediation and it occurred, but an agreement couldn't be reached. Based on the knowledge we had gained in this process, our office prepared a written recommendation. Both parties agreed our solution was fair and it was accepted.

In our efforts to build bridges between the bank and its clients, we are trying to remove barriers to finding mutually agreeable solutions. We want to avoid litigation, because the outcome usually means one side wins and the other loses.

Alternative dispute resolution encourages both sides to work together to find solutions agreeable to both. It is an ideal opportunity for everyone involved to revitalise the relationship between client and bank.

Our goal is to ensure that all clients receive access to an impartial appeal process for disputes and unresolved issues. We must ensure that all the concerns of all clients are addressed.

If there is a problem, clients are encouraged to work directly with the staff member at their local branch. If an agreement can't be reached, the next step is to contact Royal Solution Centre. The Solution Centre is a centralised group of experienced professionals trained in problem resolution. If the Solution Centre cannot bring about a resolution, the client or his banker should call the Office of the Ombudsman.

To put things in perspective, let's take a minute to look at how things unfolded in 1996. Royal Bank Financial

Group handles more than 10 billion transactions every year for nearly 10 million clients. Just 214 cases made their way to the Office of the Ombudsman. This speaks well about the Group's ability to manage relationships with clients and it's a strong indicator of a constantly growing ability to resolve disputes.

Of these 214 cases, 45 per cent came from small business customers. Another 45 per cent involved personal account matters. The rest had to do with the bank's credit-card operations, securities and insurance units. As an aside, I'd like to point out that when our office opened, we expected most of our work to be with small and medium-size businesses. But when all was said and done, fewer than half our cases came from this sector. It is surprising since one in four small and medium-size businesses chooses Royal Bank as their business partner—some 350,000 small businesses.

In terms of outcome, full agreement was reached in 57 per cent of the cases. Full agreement means the client and the bank found common ground for an acceptable resolution to both. Partial agreement was reached in 11 per cent. In those 21 cases, clients reached an agreement with the bank on some portion of the dispute, but not on another. In the other 32 per cent of cases no agreement was reached and the cases remained unresolved. But it is important to note that in some of these cases the client went away with a better understanding of the reason behind the bank's position.

Again, our objective is not to "choose a winner." Our objective is to successfully manage differences. Effective conflict management is about finding solutions—and sometimes that simply means making sure everyone understands where the other is coming from.

But our job doesn't stop at 214 cases. It isn't about finding 214 solutions; it's about making sure we don't have to find 10 million!

The second primary component of our approach to managing differences is interest-based negotiation. This is all about our ability to understand the interests of our clients so we can better work with them to reach a solution.

Interest-based negotiations are a much less costly approach to resolving conflict than either rights-based or power-based negotiations. Negotiation based on rights and powers can damage a sensitive relationship even more.

During my career at Royal Bank I've had the opportunity to see up close how business is conducted in different parts of the world. Before returning to Toronto last January I spent 12 years in Asia. My time in Hong Kong, Tokyo and Singapore taught me many lessons about people—how to relate to them and how to listen to them. It is well understood that when you work in the Far East, you must be sensitive to face, or the loss of face. But regardless of where you do business, treating people with fairness and dignity is fundamental.

In order to become better at managing differences, the bank turned to experts. I want to acknowledge two of them now. Joan Fair and the people at the Canadian Dispute Resolution Corporation assisted in establishing mediation processes in the early parts of the programme. Rick Weiler and his colleagues at AGREE Incorporated helped us set up training programmes on conflict management for account managers and risk managers. Many of our people have received, or will receive, formal training in dispute resolution. But we are also strong believers in the old axiom, lead by example.

To find solutions you have to communicate. Free and open dialogue has been the catalyst for the third component of the office's approach to managing differences: the independent, impartial review process. In other words, we want people to feel they can come to us and that their cases will be reviewed in a balanced and impartial manner.

Over the years, our experience has taught us that quite often the root of the problem in many disputes boils down to simple lack of communication. Many times all it took was someone—in some cases our office—to reopen the lines of communication and get both sides talking again. I've been asked what is the number-one cause of disputes between Royal Bank and its clients—and that's it. It's communication.

We believe that good communication is so important that we put it on the cover of our first Annual Report, published this month. Fairness, openness and good communication are the three pillars that guide the work of our office.

Some of you are probably wondering how I can be fair and impartial when the bank pays my salary. Let me assure you I am. As a senior vice-president and ombudsman, I report to the chairman and chief executive officer, John Cleghorn. But I believe I am accountable to 10 million clients. The way I view it is that inside the bank, I am an ambassador for the client—outside the bank, I am an ambassador for the bank. I'm paid to be independent.

Fairness, openness and good communication are the high road to managing differences and managing conflict. Let me give you an example of what I mean by good communication. One case we reviewed last year involved a father who co-signed a loan with his daughter to finance a small business. When he died, Royal Bank Financial Group used the proceeds from the estate to retire the loan.

The daughter was upset, probably because of how the other beneficiaries might react. In fact, the bank had acted according to the terms of the will, as approved by the executor of the estate. But somewhere along the way, there was a lack of communication, and this had never been properly explained to the daughter. The bank provided her with an explanation of its actions, supported by all the right documentation. The terms of the original loan agreement were clearly communicated to the daughter and her family, and an understanding reached. All it took to defuse what had become a very emotional confrontation was good communication.

Often, if both sides are more open about their concerns and interests, the road to resolution is much smoother. An example is the case of the struggling business owner. He'd had a rough time, and his frustration was evident. There was clearly an impasse between the business owner and the bank. But we gave him the opportunity to talk openly and honestly about how he saw things. We gave him a chance to speak his mind, to vent his feelings. He went away, and within a week came back to the bank with a proposal that led to the solution. This gave everyone what we called psychological closure—when both parties work together to come to a mutually agreeable solution they can live with.

It is interesting to note that it's not always the client who comes to us first. In the case just mentioned it was the bank that made the first move. And this is part of Royal Bank Financial Group's shift toward better conflict management. A steadily increasing number of staff are embracing our approach and are welcoming the opportunity to become more involved.

None of these solutions were what Don Cherry would call "rocket surgery." But the reality is that more often than not emotions get in the way of common sense.

There is a strong reactive component to our work but we must also be proactive in our thinking. Again it's not just about 214 cases; it's about 10 million clients. Thinking about tomorrow today is the governing influence behind the fourth component of our approach to managing differences—proactive investigations and recommendations. The information we gather throughout the conflict-management process is used to better meet, and where possible exceed, overall customer expectations with new policies, procedures, products and services. From the database we are building, patterns are emerging. Our office is now investigating several areas of potential conflict and we are proactively recommending changes.

This brings us to the fifth and final component of Royal Bank's approach to conflict management—preparing for the future. Our goal is to anticipate friction points before they occur.

The ombudsman must balance the needs of all the bank's stakeholders and keep the principles of fairness, openness and good communication in mind. More specifically, these concerns include privacy, data-based marketing and serve-delivery channels. No one wants their bank to shadow their lives or lifestyle.

So let's talk about privacy. We believe there is a "fuzzy uncertainty" out there with regard to how the bank uses confidential information. We understand these concerns. And you can be confident that Royal Bank will not compromise client confidentiality and privacy. Royal Bank Financial Group will not sell customer lists and will only share confidential information when permitted.

Canadian banks have traditionally been very serious about the confidentiality of client-bank relationships. Royal Bank Financial Group's guiding principles and employee rules require that each employee commit to maintaining client information confidential. The privacy code of Royal Bank Financial Group meets or exceeds the Canadian Standards Association's model privacy code and the enhanced Canadian Bankers Association's model privacy code. Regular reviews ensure confirmation of these high standards and relevance.

The Office of the Ombudsman does not make policy. Our role is the stewardship of bank principles. The bank must work to clarify that fuzzy uncertainty so clients fully understand how information is used and that they are comfortable it is secure.

As you're all aware, deregulation in the 1990s has opened up new opportunities for the financial services industry. The Royal Bank Financial Group of companies was formed to better meet these opportunities. This has made it possible to provide better products and services, and bundle products and services to best meet client needs. Cross-selling and preferred pricing are common features of modern commercial life in all industries and offer many advantages to clients. But if a customer does not want to participate they may opt out at any time. The Office of the Ombudsman would be concerned and would review allegations that a client was coerced to commit to one service in order to avail themselves of another.

Our job is to bridge the gap between the interests of the client and his financial institution. And make no mistake: these bridges, just like real ones, will require ongoing maintenance to handle the increased traffic that will come with change and progress.

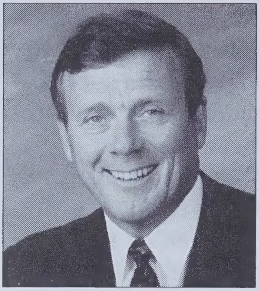
For years and years, banking was something you did in person at your local branch. Now, there are four ways to access banking services: branches, banking machines, telephones, and personal computers. Royal Bank Financial Group has to stay on the leading edge and provide the new technologies people are demanding. At the same time, the bank needs to retain the old ways some people are used to. We believe there should be a balance, and part of that balance is price. If it's cheaper for the bank, then it should be cheaper for its clients. Similarly, if people choose to use older and more costly methods of banking, then they must expect to pay for that service.

Let me leave you with a few final thoughts. The next few years should be rather interesting in terms of the volume of cases which flow through our office. We fully expect that as our role grows, and as we become more visible both internally and externally, the number of cases will increase. Then as more of our people become more familiar with the techniques to facilitate the resolution of disputes, our volume of cases should decline.

The lynch pin will continue to be our ability to successfully manage differences and apply academic principles to real-life situations. After all, no one remembers all the good things you do. They remember you, and judge you, for what you did when things went wrong. It's the ombudsman's job to facilitate effective conflict management at Royal Bank Financial Group; it's our job to make wrongs right.

Thank you very much. If any of you have any questions, please come and see me or simply call the Office of the Ombudsman at Royal Bank Financial Group.

The appreciation of the meeting was expressed by Gareth Seltzer, Vice-President, Private Banking, Guardian Capital Advisors and a Director, The Empire Club of Canada.



February 6, 1997

Ron Munkley

President and CEO, The Consumers Gas Company

CONVERGENCE AND DEREGULATION IN THE ENERGY MARKETPLACE

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Margaret Samuel, CFA, Manager, Capital Markets, National Trust and a Director, The Empire Club of Canada; Wayne Pau, OAC Student, Danforth Collegiate; The Rev. Ian McLean, Minister, St. George's United Church; Elyse Allan, Chief Executive Officer, Board of Trade, Metropolitan Toronto; Ann Curran, Principal, Lewis Companies and a Director, The Empire Club of Canada; Catherine Sherrard, Chair, Toronto Hydro; and Janet Griffin, Vice-President and Director, Nesbitt Burns.

Introduction by Julie Hannaford

If we have learned anything from the series of speakers this year at The Empire Club of Canada, it is that the face of industry as we understood even a decade ago has altered as dramatically as our perception of our place within the global marketplace, and as drastically as our understanding of possibility has expanded within the technological sphere. From the former Chancellor of Germany, Helmut Schmidt, who gave us a glimpse of Europe and the union at the end of the twentieth century, to the leaders in communications industries, who told us that our very understanding of the word communication must be altered, to the bankers from both Canada and the U.S., who told us that competing nationally would be eclipsed by the necessity of operating in a global banking universe, we have been given one constant message: if progress, industrial development, and technological expansion release us from being the captive of limited possibilities, we shall be delivered into a new captivity unless we understand the dimensions of the global marketplace as something other than mere placid consumers.

It should not be surprising then that the delivery of energy is undergoing equally dramatic shifts and changes today.

We expect from our leaders in industry the ability to learn from the past, predict the future, and provide an example for the assimilation and use of change in the sectors they represent. Ronald Munkley, who addresses The Empire Club of Canada today, offers an understanding of the history of the energy industry from the perspective of one who has worked directly in it (as a pipeline construction worker while a student), and as one of the key players in the shaping of regulation and development of the energy industry for the future. Within Consumers Gas, he began as a staff engineer, becoming Manager of Operations, then General Manager for the Western Region of Consumers Gas, then Vice-President for System Operations and Engineering, and Senior Vice President for Operations in April, 1992. He was appointed President and Chief Executive Officer of Consumers Gas on April 1, 1994.

Our guest brings his perspective on the energy industry not only from his leadership of Consumers Gas, but also as Chairman of the Board of the Canadian Gas Association, as a member of the Board of Trustees of the Institute of Gas Technology, and a member of the Business Council on National Issues.

None of us are uninvolved or unaffected by energy delivery. The issues surrounding it affect our working lives, our recreational lives and our community.

Ladies and gentlemen, please join me in welcoming Mr. Ron Munkley, President and CEO of Consumers Gas, to The Empire Club of Canada today.

Ron Munkley

Good afternoon ladies and gentlemen. It is a pleasure and an honour for me to address The Empire Club of Canada. Your club is a venerable institution which has been a part of the Toronto scene since 1903. That's a pretty impressive record of service and continuity.

Toronto was a young city in 1903, well on its way to becoming a vigorous and enterprising centre of commerce for Canada. But let me take you on a mental voyage even further back into Toronto's early history. Try to imagine the city over a century and a half earlier, 1848 to be exact, and let's say it's late on a February afternoon.

Picture it. It's damp and slushy underfoot and thick streamers of fog are wafting in off the lake. By the way, you could actually see the lake from most of the main north/south streets in Toronto in 1848. Daylight is fading quickly and a lamplighter is just beginning his nightly rounds. To the cold and weary citizens out on the streets back then, the lamplighter is a very comforting sight. His taper will kindle gas street lamps throughout the city, bringing welcome illumination, and a sense of warmth to all of those Torontonians on their way home after work.

The lamplighter was to become a very familiar sight because Toronto had chosen to set up its first street-lighting system with 100 new gas lamps and that first 100 was the foundation for an extensive street-lighting system (and gas-pipeline network) which grew quickly. Put in the context of the time fewer than a dozen North American cities had gas street lighting. Yet, Toronto, still a fledgling and muddy city on the edge of a forest, was one of them. That simple commitment to public comfort and safety must have seemed like a bold and visionary decision then, because the financing of public ventures was no less controversial then than it is today. The enterprising attitude of the time made change very acceptable. It ensured that the status quo, dark public streets, was simply not an option. A vision of prosperity, the lure of new technology, a commitment to change—to do things better than before—was leading this city of 16,000, quite literally, out of the dark and into a commercially vibrant new era.

It would have been fun to have lived here then. They were exciting days as both public and private ventures took flight. Like Consumers Gas, for example. You see the company that supplied the gas for those lamps that February evening was my company. By 1848, Consumers Gas had built the first buried water system for the city of Toronto and it was the company that built and supplied those first street lamps with gas. That was how we got started.

It was the beginning of our enterprise, and the beginning of a partnership with this city that continues to flourish and grow almost 150 years after it began. In fact, we were one of the very first shareholder-owned energy companies on the continent. And, just as Toronto, and Ontario, have changed and grown, so have we. Today, Consumers Gas is still a company primarily engaged in the distribution of natural gas. But we've moved into several other areas as well.

We've become one of North America's foremost providers of retail energy services, and we are positioning ourselves to expand both our retail and our distribution business as our markets evolve here and elsewhere—and those markets are evolving. As incongruous as it may sound analysts have described the utility business as one of the "most turbulent on the planet today."

But, let me come back to Consumers for a few minutes. In very brief terms Consumers Gas can be described as a shareholder-owned, largely regulated, utility and service company with assets of approximately $3.5 billion and 3,800 very dedicated employees. You'll note that I emphasized the fact we are a service company. In fact, we have a very large portfolio of consumer products ranging from appliance sales and service to financing, rentals, heating insurance, natural gas for vehicles and many others. I might add that our employees have created a reputation for excellence that is second to none. In independent survey after survey Consumers Gas consistently outranks other companies, other utilities and other service companies when it comes to corporate image and customer satisfaction with service.

Our company serves over 1.3 million residential, commercial and industrial customers in Central and Eastern Ontario, the Niagara Region, Western Quebec, and in Northern New York State. We have over five million interactions with customers every year! We are very significant contributors to the Ontario economy. We will make capital investments of about $2 billion here over the next five years and spend more than another billion operating the system and serving our customers. We'll pay Revenue Canada and the 175 municipalities we serve over $500 million in taxes and we make a profit for our shareholders. I am happy to tell you that our financial results for 1996 were our best ever.

So that's "Consumers Gas 101"—the bare facts so to speak. I want to talk about the changes we're making to respond to the demands of today's marketplace and in fact to lead those changes but I should describe that marketplace a bit first.

Ladies and gentlemen, I can tell you that the energy industry is one of the most volatile industries anywhere right now. In fact energy markets overall are becoming more competitive and aggressive—not just in price but also in terms of consumer choice, and better services. The Canadian gas industry in particular has gone through enormous transformation over the past 10 years and I see 10 more years of change ahead. In fact, the changes we are likely to see in the next few years will be every bit as fundamental as those we've already been through. It started when several Canadian provinces and the federal government hammered out an agreement to deregulate the wholesale gas commodity business on October 31, 1985. It was called "an Agreement among the governments of Canada, Alberta, British Columbia and Saskatchewan on Natural Gas Markets and Prices," but it has been affectionately called the “Halloween Agreement” (for obvious reasons) ever since.

What did it accomplish? Well, first it created a climate in which natural-gas prices and other contract terms could—for the first time—be freely negotiated between Canadian buyers and sellers. In that regard, it was a bit of a global milestone. We were leaders in energy deregulation back then. Secondly, it enhanced access for buyers to natural-gas supplies and producers to natural-gas markets. Essentially, it paved the way for a truly competitive market for natural gas in Canada. But most of all, it prevented the obstruction of freely negotiated commercial transactions. In other words, the agreement opened up the industry to let the marketplace do its work.

And work it has. Deregulation in the buying and selling of natural gas has spawned a whole new era of competition. Gas pricing has become truly market-based, driven by market forces. It has brought new players into the business and it has allowed for the introduction of new technologies, which are helping us to expand markets and serve our customers better. You might say, it helped our industry create the same sense of progressive evolution that those “high tech” street lamps did back in 1848.

But more importantly, prices dropped! Even with the price bumps over the past year due to exceptionally cold weather and high demand, gas prices are lower in Ontario now than they were in 1985, in real money terms, no inflation adjustment nonsense here. The Canadian gas industry is efficient and responsive now. You can bet that the current demand bumps will be satisfied by new supplies quickly. That’s been the industry track record in the late 80s and early 90s.

We know that this is just a beginning. As restructuring is introduced throughout the entire energy sector for gas, oil and electricity and as the regulatory framework continues to be relaxed and redefined how we do our business will change even more. Basically there are three main trends driving the whole energy industry today.

First, real competition is burgeoning across the continent. Generally speaking, if a product or service can be provided competitively there is no need to regulate it. After all, regulation is only a substitute for competition in any case. In the Ontario gas business, 65 per cent of the gas is now flowing through purchase agreements which have been negotiated freely between customers and natural-gas marketers. There are a lot of new competitors in the business, so there are a lot of choices for customers.

Second, customer expectations are changing. Five years ago, customers might have just shrugged their shoulders when the telephone company or the gas company told them to wait six weeks for an installation. Can you imagine what your reaction would be today? The fact is, that with more competitive options, customers can afford to be more demanding. They still want value for money but they also want quality, newer products, customised service and convenient financing. In other words, they will buy the best energy solution—not necessarily the cheapest fuel.

The third major trend influencing our business worldwide is that governments are "balancing the books." They are much more fiscally prudent. The era of seemingly unaccountable, unrestrained spending has ended. Governments at all levels today are seeking private-sector partnerships for the delivery of low-cost, high-quality service. Moreover, they are looking to companies like Consumers Gas who can effectively blend private-sector ingenuity with public-sector accountability. After all, we've worked in a public forum for 150 years.

So the rules of the game are changing. Just to stay in the game today requires vision and the courage to change. The status quo is not an option.

There are a few pretty basic questions in front of energy industry executives these days:

- What are the options open to us?
- How do we prepare our companies to play by the new rules?
- In fact how can we help get those rules?

First of all, we have to be prepared to look for growth in emerging, as well as in traditional markets. We must also be prepared to work co-operatively as an industry, to capture the opportunities. And we have to be able to adapt to change. Sometimes that's a tall order for big organisations.

For our part, we know that natural gas will continue to be the energy of choice as we move into the 21st century. It is safe, secure, cost-efficient and environmentally preferable. It is the best fuel available. But only if we in the industry can continue to meet our customers' value expectations. So we've been restructuring our company in order to use new technologies to make us even more effective.

I won't bore you with another "company restructuring" overview, though. I'm sure you've heard a few of those these days. Let me simply say that our employees are enthusiastic about change, and our customers can see that. They tell us so. But that may not be enough in this new era. New strategies must be introduced—strategies that will help us expand our customer base and serve the new customers, as well as our traditional customers, more efficiently.

Let me give you some examples of what Consumers is doing. First of all, we're getting back into the water-delivery business that was actually in our roots in the mid-1800s. In particular, we've formed a joint-venture company with one of the highest-rated water companies in the world and together we've been selected by York Region as their partner to work with them to resolve their long-term bulk-water needs. And by the way, York Region did not abdicate its role as a service provider. Rather, by putting public interest first, it will have a secure, reliable, long-term water supply, while maintaining rate stability. Most had predicted that was impossible in York Region because of its geography.

It's an excellent example of how partnering on commodity delivery could provide even more efficient solutions for all our end-use customers, both for water and gas. And that business has tremendous potential elsewhere in Ontario and particularly in the GTA as the GTA evolves. In fact, public-private partnerships with the right partners have a great deal of potential in general, perhaps even in the energy business.

Of course, the energy business is our forte. We're evolving there as well. You may have heard that energy forms are "converging," and wondered what on earth that meant. Well, gas is becoming an important fuel for electricity generation and gas and electricity will trade more freely as substitute commodities in the near future.

An integrated (or "converged") market is closer than most think, but it has to start with the fundamentals. Cogeneration of electricity and steam with gas is one fundamental. Basic partnerships on electricity and gas distribution is another fundamental. We've formed an alliance with Mississauga Hydro initially on joint-metre reading. Since it was announced, every single utility in the GTA has approached us to grow the partnership. North York is next.

In order to expand our capabilities for providing excellence in energy management (not just gas or electricity management), we've set up a joint venture with TransAlta Energy Corporation of Alberta. It's Canada's largest and most successful private electricity supplier and it's the company which is showing the leadership for deregulation in Canada's electricity sector. The TransAlta-Consumers partnership has been created to provide service to municipal electric utilities in Ontario. Our first project is with St. Catharines hydro-electric commission. We are going to significantly reduce their bulk-electricity costs through more effective commodity purchases, and through better use of gas and electricity in standby power situations. This is a win-win project for St. Catharines Hydro, their customers, and Consumers Gas.

Those are a few examples of how Consumers is changing and growing. We believe we are building on our core competencies and the strengths of our people. We also believe we are leading the way in our industry. If I judge by the requests to have our executives speak across North America and Europe, we are leading.

What's driving the changes is a genuine desire to serve the customer even more effectively than we did in the past and to put systems in place which enhance front-line decision making. Consumers Gas has come a long way in realising our visions of being "a fully integrated utility and energy services company." To do that, we need competencies all along the energy value chain—some from alliances, and some through IPL Energy, the owner of Consumers. We also need the flexibility to respond quickly to changes in the energy marketplace as North American competitors come into Ontario. The Ontario government has been instituting some of the necessary changes. It has been assessing how to reduce the regulatory burden to allow Ontario companies to be more competitive globally and it is certainly on the right track in this area.

But the biggest change in the energy sector, and one that is coming without question, is the way in which the electricity industry operates here. Change must take place. The electricity market is North American, not provincial and structural change is occurring everywhere else, which is driving rates down for electricity customers. The reality is that major power consumers will migrate to where the rates are stable, secure, and low. They've made that clear with their words and their actions. Ontario can't lag behind the rest of the continent in restructuring the electricity industry or we'll all suffer.

The Ontario government commissioned the Macdonald Committee to report on how to improve competition in Ontario's electricity industry and the committee reported last June. In my view, Macdonald provided a good blueprint for restructuring the Ontario electricity industry and the blueprint has been endorsed by a broad cross section of energy consumers, competitors, distributors, manufacturers and business associations.

Even the President of Ontario Hydro, in a speech at the Conference Board of Canada said: "I was delighted that the committee concluded that the status quo was no longer an option, and recognised the need for competition, including retail access, which would allow for an electricity market that is truly driven by customer choice. The report is a call for change and one that should prove valuable to move the yardsticks forward." I concur wholeheartedly!

There are considerable risks in doing nothing—including higher than necessary electricity prices, loss of economic competitiveness and reduced ability to eliminate Ontario Hydro's outstanding debt, not to mention the impediments on the rest of us in the energy industry. We will all be impacted. Change, and significant change, is very much in the public interest.

Based on our own experience, we believe that the introduction of competition in electricity markets is a first priority. As I said earlier, competition was introduced into the natural-gas industry over 10 years ago and has—as Macdonald pointed out—brought with it unquestionable benefits for gas customers. We firmly believe that competition within the electricity sector will produce similar effects.

The truth is that competition in electricity is already being implemented in the United States and some other

Canadian provinces. Ontario's electricity system now is basically a vertically integrated, unregulated monopoly. It cannot remain a protected island in the increasingly competitive North American industry, especially if it wishes to compete for sales in a bigger market. If Macdonald's blueprint isn't followed, then an alternative plan must be proposed. Inaction will only make Ontario Hydro, and its Ontario competitors like Consumers, less competitive in North America.

We're not talking about privatisation of Ontario Hydro here. Restructuring for competitiveness can proceed quite independently of privatisation; in fact it probably should. Trying to do both at the same time would be an almost insurmountable task. Legislation must be put in place which will permit the electricity industry to respond competitively and which by its very nature will level the competitive playing field between gas and electricity. Some of the cross-subsidisation techniques which the electricity industry is forced to apply now are only exacerbating the problems.

In the gas industry, we've seen that competition drives innovation and efficiency. In fact, Ontario really has led the world in this area. The number of customers we currently have buying gas according to their own terms here is more than five times greater than in the rest of North America! (And I've already told you how it has dropped gas prices!) This is an area of deregulation leadership that we shouldn't relinquish. But other jurisdictions are progressing much faster than Ontario is now. I am concerned that they could catch, and pass, us.

There are fundamental structural changes that will have to be made in our energy industry, and our electricity industry in particular. Implementation of these changes will take time and the creativity of all stakeholders. Ontario Hydro will be a key contributor.

But we firmly believe that the regulators, the legislators, and other key stakeholders including the natural-gas industry, the major power consumers, the municipal electric utilities, the Boards of Trade and the customers must work together on this important process. Speaking for the gas industry, we have to! We're bound by the same legislation and regulations.

Let me re-state our position. Fair competition must be introduced now and be encouraged to flourish between the public electricity system and shareholder-owned, natural-gas companies. While we're encouraged by the initial response of the provincial government to the recommendations made in the Macdonald report, what we'd like to see now is action. We would like to see governments proceed as quickly as possible towards implementation, because the implementation will be complex.

We firmly believe that, based on our own experience, the introduction of competition in electricity markets must be a first priority. Restructuring is essential, privatisation may follow where it can be shown to provide financial benefits and be in the public interest.

The natural-gas industry has a stakeholder interest in these matters. We speak not only as a competitor but also as a partner with the electricity industry in meeting the energy needs of our end-user customers. If we can't sort out these complex issues, we'll all lose our customers to global competitors and this is not in anybody's interest.

All stakeholders must recognise that the convergence of electricity and natural gas into integrated energy markets is very much a realistic prospect. Just look at the Hydro-Quebec-Gaz Métropolitain deal concluded recently. Gaz Métropolitain is the gas distributor in Quebec. Hydro-Quebec is, of course, the power supplier to the province. Sometimes it's a bit tough to distinguish between the private sector and the public sector in Quebec, but Hydro-Quebec is now the biggest shareholder in Gaz Metro. The two companies, though ostensibly separate entities, are combining forces to make a concerted push into the United States where deregulation is leading rapidly to the converged energy market I have described.

While not supporting that particular model, we also see real opportunities lying outside our provincial boundaries—opportunities for companies like ours to provide customers with excellent service in energy management, not just gas or electricity management. So do others! There have been several other energy industry acquisitions, alliances and mergers announced recently.

But, for us to capitalise on those opportunities—indeed, for us to continue to be major players in this business—it is vital that there be as much symmetry as possible in the changes happening here with the changes happening elsewhere. And most importantly, that they take place quickly.

I've already said that Consumers Gas hopes to invest well over $3 billion in Ontario over the next five years in the gas business alone, and that we will pay taxes of a half billion dollars over that same time-frame. Those investments will be dictated first by Ontario's investment climate, secondly by the performance of Ontario's economy, and thirdly by the establishment of fair competition in the energy business, continent-wide.

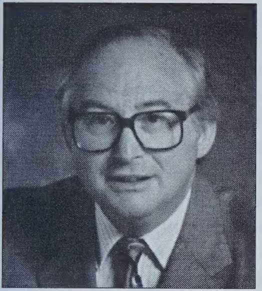
On the first two conditions, we have seen tremendous progress. We're concerned about the third, here at home. What we need is provincial leadership on policy, along with a specific action plan and timeline, because the aptitude for change is the currency that's driving the energy sector today. Ontario's companies are leaders in that sector now. We can't be hamstrung. We need a level playing field so we can react to the market.

Who will benefit the most? There's no question about that. It's the customer and the community. No one knows that better than Consumers Gas. Since 1848, when our company was founded to supply gas to Toronto's street lamps, our highest priority has been to provide excellent service to our customers, and to the cities and towns where they live. Who knows, as I sometimes say to our employees these days, we started out in the water and street lighting businesses and we may end up there again. They're a great "fit" with the gas business.

Our dedication to customer and to community has served us well. We look forward to the next 150 years.

Thank you very much.

The appreciation of the meeting was expressed by Ann Curran, Principal, Lewis Companies and a Director, The Empire Club of Canada.



February 13, 1997

Graham Strachan

President and CEO, Allelix Biopharmaceuticals

THE IMPACT OF BIOTECHNOLOGY ON THE HEALTH-CARE INDUSTRY

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Alex Squires, Security Analyst, Brenark Securities Ltd. and a Director, The Empire Club of Canada; Sonia Shirprashad, OAC Student, Jarvis Collegiate; Rev. Bill Middleton, Minister, Armour Heights Presbyterian Church; Z. Sam Ruttonsha, Vice-President, Royal Bank Capital Corporation; Andrew Szende; Director of Health Economic Development and Assistant Deputy Minister of Institutions, Ontario Ministry of Health; Ed Badovinac, Professor, Department of Telecommunications, George Brown College and a Director, The Empire Club of Canada; Gerald McDole, President and CEO, Astra Pharma Inc.; and Cameron Duff, Vice-President, Investment Banking, Deutsche Morgan Grenfell.

Introduction by Julie Hannaford

There is in Canada a group of people who are highly educated, who work unceasingly on projects few of us fully understand, who are often underpaid, and who are largely anonymous and yet, they are responsible for the greatest changes in the lives of Canadians today: they have pushed back the horizons of mortality; they have redefined our understanding of chronic disease; and, in many instances, they have been responsible for rendering treatable those diseases which once were regarded as untreatable. I refer to the group of people known generally as research scientists but in particular geneticists, biopharmacologists, and biotechnologists working in Canada together with such enterprises as Allelix. The currency of their research is dependent upon funding, and such funding whether it derives from private giving, government contribution, or private enterprise such as Allelix, is critical to Canada's leadership in medical advances in the 21st century.

Biotechnology, as we will hear today, has already been responsible for changing the way we understand disease and treat it. It is, therefore, a critical element in the future of Canadian health care. Put simply, the question that confronts Canadians is whether we shall promote an environment where biotechnological research and development prospers and flourishes and places Canada as a leader in fighting disease, or whether we shall be content to rely upon the creativity and human resources of those in other countries.

As we move from being occupied by health concerns and issues to being pre-occupied with them, our focus should not be upon the quality of life and health-care service we shall receive in the next 10 or 20 years, but rather what we shall be able to say to our children, 10 years, 15 years, and 20 years from now, as they confront disease, or as their children are confronted with disease. Shall we say that we as Canadians led the initiatives to develop those treatments that give them life, or shall we be faced with saying that we were hoping that someone else, somewhere else, would come up with the answer.

The Empire Club of Canada has invited Graham Strachan, President and CEO of Allelix Biopharmaceuticals Inc. to address these issues, not only because of his place in the industry as President and CEO of Allelix, but also because of his involvement in the biopharmaceutical industry in general. Allelix was one of the earliest companies in Canada to specialise in the development and application of biotechnology-derived products. Mr. Strachan was involved in its formation and was Allelix's first full-time employee. The National Biotechnology Advisory Committee is dedicated to advising the Minister of Industry on the status of biotechnology in Canada. Mr. Strachan is the Chair of that Advisory Committee. The Canadian Genetic Diseases Network, which is based in Vancouver, is currently through its steering committee, investigating the human-resource requirements of the Canadian biotechnology industry. Mr. Strachan is the Chair of the Board of Directors of the Canadian

Genetic Diseases Network and he is chairing the steering committee. BIO is an international trade association for biotechnology companies based in Washington, D.C. Graham Strachan is a Director and a Past President of BIO. The Industrial Biotechnology Association of Canada is an association of those companies involved in biotechnological research and product development. Graham Strachan serves as its Director and Past Chair. Mr. Strachan is also a Director of Seragen Canada Inc. and Resolution Pharmaceuticals Inc.

Many of us owe the quality of life we enjoy today to biotechnology and the biopharmaceutical industry. Most of us in the future will be utterly dependent upon this industry, not only for our well-being but for potentially our very existence.

Our guest today provides us with both an historical context and a perspective on the future of biotechnology in the health-care industry, and it gives me great pleasure to ask you to welcome to The Empire Club of Canada today, Mr. Graham Strachan, President and CEO of Allelix Biopharmaceuticals.

Graham Strachan

Good afternoon, ladies and gentlemen. I would like to thank The Empire Club for inviting me here today to talk about my favourite subject, biotechnology and the way in which it is revolutionising modern medicine, as well as its impact on job creation and economic growth in Canada. I will also elaborate on my conviction that effective patent protection is absolutely critical to the continued health and vitality of this expanding industry.

Biotechnology and its impact on health care is as old as civilisation itself. The preservation of food by fermentation not only produced flavourful products like wine and cheese, but went a long way in preventing the spread of disease. In a more direct way, biotechnology is not a newcomer to the pharmaceutical industry. Vaccines and antibiotics have been produced for many years from living organisms.

However modern biotechnology is very recent. The basic scientific discovery, in 1953, was Watson and Crick's determination of the double-helix structure of DNA. Twenty years later, two brilliant scientists at

Stanford University demonstrated successful gene cloning in bacteria. This led to the industrial application of genetic engineering and the production of recombinant human insulin. This was the origin of the first biopharmaceutical company, Genentech in 1976. Ten years later, in 1986, the first recombinant hormone, human insulin was approved for marketing.

In the pharmaceutical sector modern biotechnology, although still in its infancy, has produced a credible list of significant accomplishments, mainly recombinant forms of natural human hormones to treat many different diseases and disorders by harnessing the body's own defense mechanisms.

- Erythropoiten which frees patients from the bonds of dialysis and gives those undergoing chemotherapy the strength to fight off infections.
- Interferons offer relief and hope to patients with multiple sclerosis and cancer.
- Untold thousands of cancer patients gain relief with colony stimulating factors.
- Human growth hormone which enables short children to grow to their normal height safely.
- And, of course, recombinant human insulin now provides diabetics with plenty of safe, effective medicine.

So you can see, that within two short decades, biotechnology has resulted in many beneficial and innovative products to treat and prevent serious and debilitating diseases.

Currently some 24 biotechnology-derived pharmaceutical products are on the market and total worldwide sales exceed $8 billion. Another 284 products are currently in clinical trials for a wide range of diseases and disorders, including osteoporosis, rheumatoid arthritis, Alzheimer's disease and cancer.

But that's not the whole story—the best is yet to come. We have just seen the tip of the iceberg. Increasingly proteins are also being used as research tools to aid in the discovery and design of new organic molecules, better aspirins if you will, which are the basis of the traditional pharmaceutical industry.

This approach builds on the dramatic progress made over the last 10 years in understanding the underlying mechanisms of disease, especially at the genetic level. Indeed, the drug discovery process has been radically changed by biotechnology.

Until recently, the approach to discover new drugs was highly empirical and chemistry-driven, with the medicinal chemist producing new molecules for biological evaluation. These molecules were typically identified from a somewhat superficial knowledge of disease mechanisms or by modifying existing drugs. Today the process is much more biology-driven and incorporates scientific advances in three major areas. Firstly, advances in molecular biology are providing new insights into the origin and mechanism of disease. Secondly, there is an increasing understanding of the relationship between molecular structure and biological function, so called functional genomics, which is revealing many new gene-based targets for drug discovery. And, thirdly the production of new compounds, has been revolutionised by the techniques of combinatorial chemistry and high-throughput screening methods.

A practical illustration of the power of these new approaches is an Allelix discovery programme to develop new drugs to treat schizophrenia. We target specific protein molecules in the brain, a dopamine receptor, which is overly abundant in those afflicted with schizophrenia. Professor Phil Seeman, a world-renowned neuropharmacologist at the University of Toronto, determined that a specific dopamine receptor, the D4 receptor, is implicated in schizophrenia. A collaboration with Professor Seeman helped us understand the biology of the dopamine receptors. Allelix now makes large quantities of the D4 receptor by modern gene-cloning techniques. This receptor is then used in high-speed robotic tests to rapidly evaluate thousands of chemical compounds. In conjunction with a major international pharmaceutical company as our strategic partner, Hoechst Marion Roussel, we are looking for novel chemicals which block this D4 receptor. This promises to deliver a more effective and safer drug, one with less side effects than those presently available to treat schizophrenia.

The paradigm shift in the way drugs are discovered created the window of opportunity for new start-up companies to emerge in the pharmaceutical sector just as the introduction of the semiconductor in the 1950s created many new electronic companies. By and large, it is the new biopharmaceutical companies that are at the forefront in applying the new technologies to drug discovery. Today the established pharmaceutical companies increasingly look to the smaller dedicated biopharmaceutical companies as translators of academic research and a source of innovative new technology and products which they access through strategic partnerships.

According to the latest Ernst & Young figures, there are now 132 dedicated biopharmaceutical companies across Canada. This is nearly double the number since 1993 when Bill C-91, the legislation relating to patent protection for pharmaceuticals was passed. Ontario has the largest share of these biotechnology companies, with 43 per cent of Canada's firms. Further evidence of the explosive growth in this sector is:

- The increase in the number of jobs created. Government data indicates the sector now directly employs 8,000 Canadians in highly skilled, knowledge-based jobs. This is expected to reach 12,000 jobs by the year 2,000, an increase of 50 per cent in just three years.

- The growth within existing companies has also been significant with 59 firms now publicly traded compared to only 23 in 1994.
- And the sector has been particularly successful in attracting investment capital to fund the growth of Canadian biopharmaceutical companies. In 1996 alone over a billion dollars of public equity was raised, and close to $200 million of venture capital.

Without question our biopharmaceutical companies are becoming an increasingly visible and significant component of the overall Canadian pharmaceutical industry, alongside the brand-name companies and the generic firms, both of which I should emphasise continue to thrive and prosper in the new environment.

The biotech companies play an important role today in providing a Canadian capability to translate basic scientific discoveries from our universities and medical schools into commercial products. We are now seeing the results in enhanced industrial and economic activity—in new jobs—as we capitalise on the massive public investment over many years in academic research in the life sciences, largely paid for by Canadian taxpayers. Until recently, such discoveries were typically licensed offshore and the technology commercialised in the U.S. or Europe. The value added within Canada was low.

It is this ability to exploit applications for our research within Canada which has fostered the emergence of the new generation of innovative biopharmaceutical companies. I expect companies like BioChem Pharma, Biomira, QLT, Allelix and others will evolve into significant international players over the next decade, resulting in Canada having one or more pharmaceutical company equivalents of major industry success stories like Northern Telecom or Bombardier. The 132 Canadian biopharmaceutical companies are working on literally hundreds of products that will prevent, diagnose, treat and cure difficult, chronic and often fatal diseases.

Several products have already come forward from Canada onto international markets—one for AIDS, 3TC from BioChem Pharma; two for cancer, Photofrin from QLT and Truquant from Biomira; and several vaccines from Connaught. These products are significant additions to the 20 or so other biopharmaceutical products already marketed worldwide. I believe Canadians should take pride that their home-grown biopharmaceutical industry has innovation, not imitation, as its primary focus.

The reason, in my view, that our sector is showing such robust growth and vitality is because the critical ingredients for success are in place, many resulting from farsighted government policy initiatives implemented several years ago. We have a strong life-sciences research base and a pool of well-trained and motivated scientists. Since 1993, we have had a national policy that encourages innovation by providing improved patent protection for pharmaceutical inventions—quite a change from the previous 25 years when patent protection was essentially eliminated. And federal tax policies have been very effective in encouraging risk capital to invest in this sector knowing that the investment is protected, albeit for a limited period, by patents. This direct linkage between patents and investment means that full and effective patent protection is absolutely essential for the continued survival and growth of Canadian biopharmaceutical companies.

The development process for pharmaceutical products, because it is tightly regulated and rightly so is lengthy, typically 10 to 12 years from lab bench to market and extremely expensive, often costing anywhere between 100 to 400 million dollars to produce just one new drug. In addition, the risks inherent in the research process are huge, as fewer than one half of one percent of all compounds that enter preclinical testing emerge as marketable drugs.

The availability of significant financing at reasonable cost is obviously important to biopharmaceutical companies because of the lengthy nature of the development process and the risks. Historically, affordable risk capital was a problem in Canada because the biotech sector is both quantitatively and qualitatively different from our mainstream industries. However, since patent protection was strengthened in Canada in 1993 investment capital is much more readily available to finance the start-up and development of our biopharmaceutical companies. In a nutshell, patents serve as a key incentive for investing risk capital, promoting innovations and facilitating technology transfer.

In my experience, one of the first questions asked of the biopharmaceutical company CEO when trying to raise money from the financial gatekeepers is the patent status of the company's product or technology. Anything less than a positive response inevitably invites scepticism. And the financial community is becoming extremely knowledgeable about the importance of patent issues. All investors expect, indeed insist, that companies have strong patent protection to offer the promise of market exclusivity that is necessary to show the return on investment required to attract the large amounts of capital this business demands. Without solid patents, raising capital to develop life-science discoveries will be next to impossible and this blossoming industry will wilt on the vine.

All of the progress we have made in developing this industry over the last four years is now at risk with the parliamentary review of Bill C-91 now underway. Without the patent protection for our technology provided by C-91, Canadian biopharmaceutical companies will perish. The continued strong growth of this sector depends upon retention of Bill C-91's provisions that allow us to attract investment and recover the hundreds of millions of dollars we invest in research to develop new and innovative products that will be cost-effective for the health-care system.

Canadian biopharmaceutical companies through the Industrial Biotechnology Association of Canada are urging the federal government not to retreat from the progress Canada has made with Bill C-91 which has delivered on its threefold objectives of:

- Improving our competitiveness as a nation;
- Stimulating R&D in this country; and
- Continuing to offer Canadian consumers patented drugs at fair and reasonable prices under the strict control of the Patented Medicines Prices Review Board.

Indeed the federal government should implement further improvements to bring our patent system up to a level comparable with our competitors. The biopharm sector is concerned that simply maintaining our current level of patent protection—20 years from the filing date—places Canada at a disadvantage since the effective patent life for products in the marketplace is more like eight to 10 years. Other countries have provided additional incentives for innovators. The U.S., the European Community and Japan all provide for patent term restoration. Up to four or five years of patent life are added to partially compensate for the long regulatory reviews unique to this sector.

Further, we need to strengthen the enforcement mechanism built into the Canadian system. Right now we rely on Linkage Regulations to prevent copying of a patented pharmaceutical product before the courts have had the opportunity to consider if valid patents are being infringed under Canadian law. These linkage provisions are precariously placed within the patent regulations and could be reversed at any time without public review. These linkage regulations should, in my view, be embodied in the Patent Act itself.

In our own case, which would be typical for the industry, Allelix filed its patents for our lead product, PTH for the treatment of osteoporosis back in 1989. Although we are in advanced clinical development of PTH, we do not expect that Astra, our commercialisation partner, will be able to market the product until the year 2000. This will leave only nine years of effective patent life in which to actually sell the product and start to earn back some of the tens of millions of dollars invested in its development. For a product as innovative as PTH, which is expected to regrow bone quite aggressively through a unique mode of action, I do not believe this is adequate or fair. But beyond that, the only thing preventing another company from copying PTH in Canada before the nine years are up, is the Linkage Regulation. Allelix investors should be able to count on this protection and right now we can't.

The strength of Canadian patents is equally important. Industry needs to respect granted patent rights; and if they don't, if they perceive legitimate weakness, there should be an inexpensive forum to resolve that weakness so companies can plan sensibly going forward. Canadian industry would benefit from the introduction of a European style of patent opposition. This system allows stakeholders with legitimate reasons to challenge the grant of competitive patents. It would introduce a degree of rigour into the current Canadian patent system that would enhance both the quality and the strength of granted patents. Few Canadian biopharmaceutical companies can afford the expense and uncertainty of court action to overturn patents, the only avenue presently available to remove suspect granted patents.

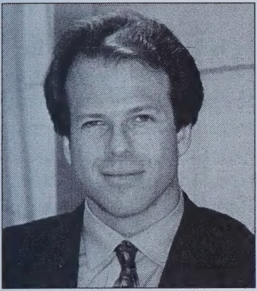
In conclusion, in its review of Bill C-91, I would urge the federal government to recognise that with anything less than full and effective patent protection in Canada, most of the young, innovative biopharmaceutical companies will predictably disappear—fold or leave the country. They will do so because the source of capital, based on the expectation of an adequate return on investment, will dry up. This would have a devastating effect on this high-tech, knowledge-intensive sector. We will once again see our scientists leave Canada for the U.S. and other countries, with the loss of thousands of high-quality jobs and few of the many products being developed across Canada right now will ever make it to international markets. Moreover, it is unrealistic to expect that our trading partners will ignore any significant dilution of Canadian patent protection for pharmaceutical inventions. And, I think we might expect retaliatory action by the U.S. and others.

Canadian biopharm companies need to be able to complete globally on a level playing field with companies in other countries. Strong patent protection is the very lifeblood of biopharmaceutical companies like Allelix and it is imperative that we maintain international standards if we are to compete internationally and continue to grow this sunrise industry.

Let Mark Twain, himself a prolific inventor under his real name of Samuel Clemens, have the last word: "A country without a Patent Office and good patent laws is just a crab and can't travel anyways but sideways and backways."

I sincerely hope this is not Canada's fate.

The appreciation of the meeting was expressed by Alex Squires, Security Analyst, Brenark Securities Ltd. and a Director, The Empire Club of Canada.



February 20, 1997

Maxwell Anderson

Director, The Art Gallery of Ontario

PREPARING THE AGO FOR THE NEXT MILLENNIUM

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Ed Badovinac, Professor, Department of Telecommunications, George Brown College and a Director, The Empire Club of Canada; Barri Biederman, Grade 12 Student, Forest Hill Collegiate; Rev. Duke Vipperman, Priest-in-Charge, Little Trinity Anglican Church; Jane Corkin, Jane Corkin Gallery; Sandy Brown, Director of Development, Alumni Affairs, Trinity College, University of Toronto; Frederic L.R. Jackman, Ph.D., President, Invicta Investments Incorp., President, the Art Gallery of Ontario and Past President, The Empire Club of Canada; Douglas Todgham, Vice-President, The Canadian Institute for Advanced Research and Third Vice-President, The Empire Club of Canada; William Withrow, Director Emeritus, the Art Gallery of Ontario; Meredith Chilton, Director and Curator, George Gardiner Museum of Ceramic Art; and Joe Tanenbaum, Chairman, the Board of Trustees, the Art Gallery of Ontario and Chairman and CEO, J. M. Holdings Ltd.

Introduction by Julie Hannaford

The world of art and the world of business have historically revolved in co-existing and some would say co-dependent concentric circles, with a dynamic tension keeping the two worlds connected as a result of their absolute difference and concurrent complete interdependence. In essence, the product of the artist at its very best speaks to the world of commerce in a language that defies the linear thinker and yet speaks to us better than any prosaic medium that dominates our commerce-laden lives.

Of recent years, the uneasy truce between the business world and the art world has started to come undone. The best evidence of this is found in popular culture: cultural historians would tell us that we know or should know that business is trying to displace art rather than co-exist with it when the business world starts to fashion its leaders as artists. And we know this has happened when the skill of making, keeping, or trading money is described in books with titles such as "The Art of the Deal." We know we are in worse trouble when books like those become best sellers.

As is the case with production in general, the future of art and its survival and steerage into the 21st century will depend upon how its leaders configure the business of acquiring, preserving, displaying, and maintaining the artists and their products in an environment that has itself reconfigured how we see and perceive the world. Our guest today began his preparation for this challenge after having studied fine arts at Harvard. He became fluently tri-lingual (English, French and Italian). He acted as Liaison for Information Technology for the Association of Art Museum Directors and he launched the Art Museum Network, the first official website linking North America's 180-largest art museums on the Internet. He has lectured on Roman art, international art law and interactive technology. He is a past Trustee of the Association of Art Museum Directors and he sits on the Advisory Committee of the Getty Information Institute. He is a Trustee of The American Federation of Arts and was decorated as a Commander of the Order of Merit of the Republic of Italy in 1990.

Max Anderson joined The Art Gallery of Ontario as its fourth director in September of 1995, having directed the Michael C. Carlos Museum at Emory University in Atlanta and having spent six years as the Assistant Curator of Greek and Roman Art at the Metropolitan Museum of Art in New York.

As a society, we shall be judged by the words and deeds recorded by our historians; as a civilisation, we shall be evaluated by our success or failure in preserving and maintaining an environment for the making of art, and for its display and communication. It used to be that those charged with being the curators of our public cultural heritage needed to bring to their role primarily, or possibly only, the virtue of refined good taste and training. As we approach the turn of the century, those charged with the stewardship of our public art institutions in general (in the AGO in particular) shall succeed not by virtue of their good taste alone, but rather (and perhaps only) as a result of their vision.

Max Anderson has a vision for the AGO. Please join me in welcoming him to share that vision with The Empire Club of Canada today.

Max Anderson

Let me begin with an apology for the pompous title of this talk. But in today's fast-paced world a century sounds short-lived already. Besides, in the coming months I'll be speaking a lot about centuries as we plan the celebration of the AGO's Centennial in the year 2000, so I want to keep my options open and lengthen the attention span of Ontario's leadership.

In addition millennial anxieties and promises are taken in stride by an institution like the AGO, caring for a billion dollars in assets made by thousands of history's greatest artists over the course of eight centuries. We hold in trust for the people of Ontario one of the finest art collections in the world. In addition to masterworks by everyone from Rembrandt to Picasso, we present the pre-eminent assemblage of the works of Henry Moore and of Inuit sculpture, one of the world's two or three finest collections of Renaissance and baroque bronzes, Canadian paintings and sculpture, and more recently prints by the Impressionist J.J. Tissot and picture frames from the Renaissance forward, as well as dozens of other distinctions including great 19th-century British paintings and an outstanding collection of American post-war art. We have bigger fish to fry than obsessing about the silent switch over of wrist watches from 99 to 00 that the millennium portends. We have the reputations of some 20,000 artists from the 12th century to the present to maintain and the stewardship of a collection that millions of Canadians and hundreds of thousands of tourists count on to tell the story not only of our history but that of Western Civilisation from the dawn of the Renaissance onwards. Perhaps most significantly of all, we have the responsibility to see to it that every visitor and prospective visitor can turn to us for a release from their daily travails, a context for the passions and ideas that have gripped everyone at one time or another, and a benchmark for quality—that evanescent virtue in a mass-media, over-advertised, jangling morass of multimedia blitz and hype threatening to engulf us at every waking hour.

This is not to say that the AGO is averse to engaging the world of new media. Far from it. Ten thousand hits a day on our website encourage us to think about the people who are increasingly connected to us from desktop computers. We will shortly announce an ambitious partnership to enable distance-learning for tens of thousands of Ontario schoolchildren. We have founded the world's first art museum network, an Internet/broadcast television conglomerate linking the continent's 200-largest art museums, from the National Gallery of Canada to The Metropolitan Museum of Art. We are overseeing the construction of the world's first authoritative image bank of thousands of masterworks in those collections. We are working with North America's and Europe's largest museums to construct a global exhibition calendar enabling on-line audiences to review the schedules of thousands of art exhibitions over the next several years, as well as order catalogues and merchandise, purchase tickets, reserve tables at our restaurants, book group tours, and connect with the global industry of tour operators, travel agencies, and hotels. We introduced last week the first debit card at an art museum, allowing visitors to purchase tickets, meals, admission, merchandise, and everything else we sell, while making themselves eligible for rewards. We are working in tandem with software developers to configure the utilities that will transform not only our gallery, but potentially all of the 200-largest art museums in North America. And while everyone from Bill Gates to the U.S. Federal government would like to be setting the terms under which we collaborate as museums, it is the AGO that is driving the effort.

Our technological innovations are part of a long-term strategy for the Gallery, which is being built in anticipation of the imminent arrival of secure on-line digital transactions. Let's go over a fraction of the myriad ways in which the Gallery is changing this month and some of the ways that we will change over the next couple of years. And then allow me to close by speculating on what else we must accomplish to put ourselves in shape to meet the silent click from 99 to 00.

For many years we have charged a set admission fee to enter our doors. Yesterday we eliminated the required $7.50 charge and now ask visitors to pay what they can to enter the permanent collection, with a suggested admission of $5.00. Wednesday evenings, which have until now been free, will involve this new approach as will all other public hours. Our reasoning is that more people will come to the Gallery more often once the charge is eliminated; we have determined that an increase in attendance will cover off the shortfall occasioned by eliminating the $7.50 charge. Members will of course be free to come as often as they like with no solicitation for payment. At the same time, we have begun more ambitious programming of educational services for all ages, as well as lectures, concerts, films, and other educational and entertaining events, and will be charging for these, as well as for many special exhibitions that have been free with required admission in the past.

Until now, the Gallery has been open during daylight hours, meaning that most people can visit us only on weekends when we compete with errands, chores, and evening engagements that take precedence over daytime excursions. We must recognise that evening hours are more convenient for most people—so that stopping by after work to meet a friend, bringing the family, or just heading over to see what's up that night are all options. In order to make it more attractive for everyone, we will programme the Gallery differently during the course of each day. Early mornings will be available for events like corporate breakfast meetings, for which we will soon be able to offer live global teleconferencing; ten to noon will be for school groups and group tours, noon to five will be for tourists and those fortunate enough to have the time to visit, and five to nine p.m. will be for all of us. Evenings will have a different flavour, with live music in the galleries, cocktails, and light fare in the restaurant and our new street side cafe on Dundas Street, with outdoor seating from April to September.

Access to the Gallery will remain free for members for almost all exhibitions while the general public will pay a surcharge for many exhibits and programmes. A no-hassle entrance will honour our new bar-coded Members Card, which will prevent unnecessary queuing. We are the first art museum in North America to offer such a sophisticated digital instrument for ensuring the swift passage of our members. Members will continue to receive advance notice of exhibitions through our quarterly magazine MJ, as well as access to the Members' Lounge, discounts in the Gallery Shop and Gallery Restaurant, as well as on Gallery school courses and lectures. Members with Internet access can e-mail us with inquiries or concerns at members@ago.net, and using a membership number, will soon have privileged access to restricted parts of our Website, at http://www.AGO.net.

Those who support the Art Gallery of Ontario are vital to our fiscal health, and we could not have made these sweeping improvements to the Gallery's operations without the continuing support of our patrons, members, volunteers and visitors. The province of Ontario provides us with an annual allocation covering almost half of our operating budget—but we must raise almost $12 million annually from our members, patrons, corporate and foundation supporters, as well as from earned-income streams.

Allow me to turn to the crux of our mission: the acquisition, care, study, and presentation of works of art. Nothing is more important to us than maintaining our reputation as one of the world's leading art collections. It is axiomatic that those who live in a city take their own institutional strengths for granted. Rest assured that our reputation in the U.S. and Europe is more considerable than our reputation in Greater Toronto. Not a week goes by that I don't sign an agreement lending masterworks to museums ranging from the National Gallery of Art in Washington to the Pompidou Centre in Paris. At the outset I mentioned some of our collection strengths. These are better known to our colleagues at museums from St. Petersburg to Los Angeles than they are to the average Ontarian. And that is something we most assuredly will change. The new opportunities posed by digital technology will mean that our collections will become better known to the residents of the province and to all Canadians. We will shortly embark on one of the most ambitious efforts ever to connect far-flung audiences with a museum's art collections. No gallery or museum has yet attempted what we will introduce next fall, which will allow those on-line to roam through our galleries in real time video, participate in live video-fed conversations with our curators, educators, conservators, and technical staff, and learn in real depth about the cultural heritage to which they will turn as part of their daily curriculum. Visual literacy is one of our primary goals. It has been proven time and time again that young people exposed to studio art and art history, as well as various forms of performing arts, learn new cognitive skills that serve them a lifetime, and that an educational diet deprived of the arts leads to undernourished minds that are less competitive.

In addition to the opportunities we will soon afford Canadian children far afield from Toronto, we will be building an enhanced educational environment at the Gallery for those fortunate enough to come to visit us. Kids on-site will arrive, we hope, with a thorough grounding acquired through the Internet in some of the primary issues informing the study of painting and sculpture, including artists' biographies, social context, and the condition of works. When they come to the Gallery, already aware of our facilities and amenities, they can lead their teachers to the works in their study plan, sit in front of select masterworks and bring all of the knowledge acquired remotely to bear on the experience of the original work in front of them.

Please make no mistake—facilitating the experience of the original work of art is the reason the AGO exists. The myriad educational enhancements we offer to those in our doors and far away, from published monographs and catalogues, touring exhibitions, the lecture circuit, and the Internet, are enhancements. The direct encounter with a video project by an artist in her 20s today or a painter from the Gothic period is our reason for being, because through these experiences visitors of any age make the most powerful connection with the ideas, emotions, and concerns of society's greatest exponents of meaning: its artists.

In addition to all the other amenities that we are planning this month, we will also introduce a digital audio tour in conjunction with the exhibition of Edvard Munch, that includes an oil version of The Scream that has come from Oslo. For the time being, that tour will be on portable CD-ROM players, allowing visitors to hear Munch from beyond the grave, and hear scholars fill in our knowledge and listen to a psychologist speak about the emotional state of this remarkable but troubled artist.

Digital audio is the centrepiece of a larger strategy to ensure, to the degree possible, that our visitors of all ages have direct confrontations with the original artworks hanging on the walls and in our cases. Before long, options will present themselves beyond the random-access tours allowing for a variety of perspectives pulled off CDs at the visitor's whim. The next phase will involve, like the Internet, a combination of archived information and real-time broadcasting. Similarly, we will likely move to live transmission for those visitors who seek individual or group tours. This might include hookups with experts not only in our facility but from elsewhere or with other audiences that are back in a classroom participating in a screen-projected live feed of a school group before a sculpture in one of our galleries. The focus will always be on the works of art. A group in front of a portrait will examine the surface, and could have a conservator answering questions about the work from her office, while transmitting a video feed of this exchange over the Internet for potential millions on-line. The encounter will be taped for re-broadcast at regular intervals as well as available to be pulled down in classrooms or libraries 24 hours a day around the world.

But what about the quiet reverie in front of the artwork by the single visitor or the parent and child? We will do nothing to encumber that basic experience. In many ways it is the richest kind for many, especially for those fortunate enough to have enough background from their education or direct exposure to art to make it enjoyable and worthwhile with no additional learning tools. A visitor or visitors who seek a connection with a painting, unfettered by explanation or interaction should not feel that it will be forced on them. Some of my most compelling memories of visiting galleries as a child were times when I was free to allow my imagination to interpret the works, rather than to follow the official and oft-times limiting interpretation of the teacher, parent or institution.

I am one of those for whom the concept of technology is integral to daily life. But I don't associate it instinctively with computers or with digital technology. For example, I once listed the reasons why the fountain pen is, in addition to a viscerally satisfying tool, a problematic example of technology. The reasons include the fact that it leaks and invites smudges, is easily lost or borrowed and not returned, has a small ink supply, permits only one colour at a time, can scratch surfaces, is easy to drop and be damaged or stain a rug, has a clip which can cause wear on jacket pockets, is expensive or not worth buying, has to be sent away for repair, can't retrieve information—only provides it, is hard to edit or substitute text with, produces sketchy, inexact images, makes only one copy at a time, only makes one or two sounds and can't retrieve any.

Oil paintings are a form of technology and were discovered to be a practical alternative to paintings on wood only through technological experimentation. They continue to carry visual messages on a durable medium. They were made either to be transported or to be in a fixed location, like an altarpiece or a desktop workstation. They were intended to transmit meanings of interest to viewers of the time and were part of a flourishing industry that stretched around the globe. The finest creative minds turned to paintings and sculptures to express the concerns of their day. But these concerns were as multivalent as they are today. The word "painting" is a technological delimiter, or a means of classifying one medium designed for visual communication. Yet what was communicated varied as widely as the minds of mankind from the remote past to the present. We make the concept of "paintings" too abstract and disconnected from our daily life by thinking of them as a dead medium or even one that only the initiated can learn from. By romanticising them we simultaneously drain them of their power. We should feel free to enjoy them and learn from them as emblems of their time but also as direct forms of communication with ours, and for many that require, in today's frenetic world, a way in that goes beyond the uncompelling message that "it's good for you" to go to a museum.

It is in some ways an arrogant corruption of artistic intention to put pictures from over seven centuries in the same suite of galleries. How presumptuous of us to hang a demure Madonna and Child by Bernard van Orley across from an ebullient genre scene by Pieter Brueghel the Younger. The quiet religious contemplation that the former was intended to exact from the viewer is for me disrupted by the peasants stomping tipsily to song at a fifteenth-century wedding. Or the display of our new Ribera with St. Jerome—a gritty, emotional baroque homage to a Saint with dirty fingernails as if projected into the seventeenth-century Spaniard's own time—not far from the pristine white marble bust of Leo IX by Bernini, a pope living in the lap of luxury, should evoke strong tensions in the observant Catholic visitor, for whom the dissonance of these value systems goes to the heart of issues raised by religious conviction. But since these unlikely pairs of works are from the same period we enshrine them in association with one another. This is taken to be appropriate in museum culture and yet conveys next to nothing of the texture of life in the Renaissance or the era that followed unless we can develop sensitivity to the ironies that we create by hanging them in the same gallery. Museum galleries can become the unfortunate equivalent of waiting rooms at train stations, in which the occupants, so different in their internal thoughts, emotions, and histories, are reduced to silent strangers thrown together not because they have anything in common but because of the function of the space they share. And as in those waiting rooms, we can emerge with mistaken assumptions about the occupants because we confused shyness with rudeness or curiosity with flirtation.

I console myself about how we're doing by knowing that certain modern galleries, unlike ours, paint all their walls white out of the mistaken belief that this is somehow fairer to the artists shown therein—as if an antiseptic room is less intrusive than one striving to put some contextual cues around the works on view. But the all-white modern museum is in fact the most intrusive of all, in which the vanities of the architect, curator and administrator only help drain the artworks in their care of any connection to their time—a time which was like our own, invariably filled with organ music or techno, pirouettes or mosh pits, incense or air fresheners, candlelight or sunlight—all of which are banished from the experience of the work of art as if at odds with artistic intention. There is no greater fiction in museum history. The palaces, chateaux and homes that were converted into museums, like Versailles or The Grange, are, even without labels, more authentic places to encounter artworks of their time than we will ever be. The all-white museum is the opposite extreme of sensory privation, the vacuum tube of human experience in which we are meant to taste the complicated and sensory-rich offerings of the pictures before us without so much as a dash of colour from Picasso's beloved sunny Mediterranean.

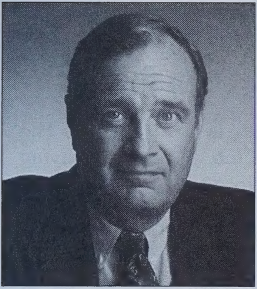
Those of us in museums have reconciled ourselves to the problem, occasionally straying more towards an unobtrusively simulated context, and at other times yielding to the impulse to create a more clinical, modernist environment. The judgements we make in creating such surroundings for our works are often nuanced and thoughtful, and sometimes succeed mightily. We tell ourselves that this process of filtration, which is considered and undertaken with consummate respect for the works themselves, is what separates us from wax museums and theme parks, where context is king—to the exclusion of the authentic.

But the display of art with no context is the ultimate act of arrogance, in that it suggests to the visitor that he or she had better come equipped with all the knowledge necessary or be beneath the experience we offer. Thus I consider high-tech aids to the visitor to be other than an intrusion if properly designed. They can serve to enhance our understanding like the figure in Renaissance and baroque paintings who looks out at us and points to direct us to the primary scene of the picture. They can make a simple gesture of reawakening the senses about the original surroundings and sounds in which a picture or statue resided—all the way from the artist's studio to the dealer's salon to the patron's home to the conservation laboratory to the frame-maker's workshop to the wall on which it hangs before you. These are the multiple lives of the work of art, and their stories need to be told for us to sample the deepest draughts of their meaning and reception over time. All but a very few stand to gain from these tools, since we fool ourselves if we believe that the only way to absorb a painting is from 20 words on a label and a prolonged stare.

How will we insure that oil paintings have a continued relevance to the audiences of the next millennium? Certainly not by assuming that what was important to us will always be so. We have to work to allow the continued relevance of messages from today and from long ago to shine for everyone. And that will make manifest the degree to which the human condition is in many ways immutable—that the love of a mother for her child is shown in quattrocento panel paintings, or that the trappings of wealth were captured not in names on buildings but in flattering portraits, or that the passions of love were recreated not in film but in mythological allegories, or that the clash of arms was recalled not in video games but in battle paintings.

It does no disservice to the makers of those original works of art from long ago to show the ways in which they can connect with our realities and even our fads of today. If anything, it affirms their continuing importance as touchstones of culture and prevent us from becoming too comfortable in thinking that we are the centre of the universe or at the summit of human experience. And as we scurry to taxis to rush us to meetings, to finish proposals to undertake projects, galleries and museums stand to remind us of the sweep and majesty of the human imagination, the long history and persistence of creativity and of more enduring values than wealth and visible success. As the guardians of tens of thousands of messages and memories, galleries of all institutions need to stand and flourish well into this next unpredictable millennium, attesting to the pitfalls of vanity and the joys of human contact, and allowing a place of refuge from the fleeting, the commercial, and the inauthentic.

The appreciation of the meeting was expressed by Frederic L.R. Jackman, Ph.D., President, Invicta Investments Incorp., President, the Art Gallery of Ontario and Past President, The Empire Club of Canada.



February 21, 1997

A joint meeting of The Empire Club of Canada and The Canadian Club of Toronto

The Hon. Paul Martin

Minister of Finance

CANADA'S 1997 BUDGET

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Barry Campbell, M.P., Parliamentary Secretary to the Minister of Finance; Kenneth Battle, President, Caledon Institute of Social Policy; Patrick Johnston, President and CEO, Canadian Centre for Philanthropy; Dr. Fraser Mustard, President, The Founders Network and Bell Canada Fellow of the Canadian Institute for Advanced Research; The Venerable Harry St. Clair-Hilchey, Priest-in-Charge, St. Paul's Anglican Church, Bloor Street; George L. Cooke, President and CEO, Dominion of Canada General Insurance Company; Dalton McGuinty, M.P.P., Leader, Ontario Liberal Party; Anne Golden, President and CEO, United Way of Greater Toronto; John A. Campion, Partner, Fasken Campbell Godfrey, a Director of CBC and a Past President, The Empire Club of Canada; William Blundell, Member, National Forum of Health and Chairman, Manufacturers Life Insurance Company; Margaret Murphy, Representative, Canadian and P.E.I. Association for Community Living; Charles V. Keating, Chairman, Access Cable Television Limited; The Hon. Michael Wilson, P.C. Vice-Chairman, RBC Dominion Securities Inc. and a Director, The Canadian Club of Toronto; J. Robert S. Prichard, President, University of Toronto; Stanley Hartt, President, The

Canadian Club of Toronto and Chairman, Salomon Brothers Canada; and Tony Fell, Chairman and CEO, RBC Dominion Securities.

Introduction by Julie Hannaford

Our guest today, The Honourable Paul Martin, is no stranger to The Empire Club of Canada and The Canadian Club of Toronto, having addressed our clubs on three occasions before today. For those of you who have joined us on all three prior occasions, you will no doubt have noticed the tradition that appears to have evolved around the Minister's introductions. This tradition was developed by our President John Campion in 1994 and crystallised by him in March, 1995, when he introduced The Honourable Paul Martin again at a joint meeting of The Empire and Canadian Clubs. John's introductions began and ended by configuring the Minister within an historical context that encompassed three centuries, the Seven Years War, the triumph and tragedy of King George III and the travels of Vladimir Ilyich Lenin through Switzerland, Germany, and Russia.

That tradition means that I am obliged to begin my introduction in the year 1600, and ramp us up bit by bit into 1997. Three factors prevent me from doing so. The first is that John Campion is sitting at our head table, the second is that Rogers Cable 10 allots a limited amount of time to these broadcasts, and the third is that our guest today has established an historical and political context in the past three years worthy of its own recognition.

Before he was elected in 1988 as an MP for the federal riding of LaSalle-Emard, Paul Martin was Chairman and Chief Executive Officer of Canada Steamship Lines, and a Director of seven Canadian companies. His academic background is philosophy and law.

When he first came to The Empire Club of Canada and The Canadian Club of Toronto, in October, 1994, Paul Martin spoke about the need for a sea change in government. He was confronting a deficit that in 1992–1993 was $41 billion, and $45 billion in 1993–1994. He told us: "The opportunity for the Canadian economy has rarely been brighter. But there is one great storm cloud on the horizon. It is debt. It is a storm cloud that has been building for decades. It is a storm cloud that no government has had the will to address. We have too much to lose by letting it persist."

Mr. Martin put it somewhat more bluntly about a week prior to his address to our joint clubs, when he stated on budget day: "We are in hock up to our eyeballs."

On March 2, 1995, Mr. Martin addressed our joint clubs again. He reported then that the underlying deficit would come in at about $35 billion, $4.4 billion below the target of $39 billion. He established a target for 1995–1996 at $32.7 billion, and for 1996–1997 at $24.3 billion.

He promised to meet the targets he set in both years. Today, The Honourable Paul Martin addresses our joint clubs, having made fiscal history: as we all know, he not only met his targets, but bettered them.

If we need an historical context into which Mr. Martin's address today can be placed, we might find it in The Financial Times of London, in the lead editorial published yesterday, which read: "Many a European Finance Minister will have read Paul Martin's budget speech to the Canadian Parliament on Tuesday, and wept. Consider the highlights: a record-breaking decline in public borrowing, falling interest rates, low inflation and best of all, a long-awaited upturn to economic growth. All this, and in an election year. It was not so long ago," the writer goes on to say, "that Canada was staring into the abyss."

There are any number of explanations for the fiscal good news delivered on Tuesday. Some say the deficit reduction arose because of the help from a decline in short- and long-term interest rates. Others say that it was aided by a decade or more of development of a political consensus around the need for deficit reduction. Still others point to the time it took to develop a popular consensus around the acceptance of an end to spending. Many, however, say that all this would not have happened without our guest, who made the promise to reduce spending, who resolved to keep the promise, and who had the guts to see it through, and who may well be alone responsible for restoring popular belief in the meaning of a political promise.

Ladies and gentlemen, please join me in welcoming to The Canadian Club of Toronto and The Empire Club of Canada, The Honourable Paul Martin.

Paul Martin

Last week, we brought down our fourth budget. Although the measures it contains range across the spectrum, they relate to one overriding goal. And that is the need to build both a stronger economy and a stronger society.

When we came into office, Canadians knew this task would take time. They knew it demanded persistence. And they knew it required a plan of attack. That plan is in place. It has been acted upon—and built—in every one of our budgets.

The first element of the plan was to establish confidence in the country's management of its financial affairs. I believe we have done that. The second element has been to take action in areas that have an immediate impact on growth and jobs—initiatives that would also serve as a bridge until the full impact of our effort to keep interest rates down took hold. The third element was to make key investments that will strengthen the prospects for longer-term economic growth. And the final element was to focus on investments to strengthen the social underpinnings of the nation.

Let me now put the budget in the context of this plan. As far as the nation's financial health is concerned, this year we will not only meet, we will substantially exceed, the deficit target we set during the 1993 election campaign. That target was three per cent of GDP, or about $24.3 billion. We can now safely say that even after including our budget's new spending the deficit for 1996–97 will be no higher than $19 billion. This is more than $5 billion lower than our target—about $9.5 billion below the previous year. In fact, it is the largest year-over-year decline in the deficit ever recorded. Our budget also makes it clear that we are firmly on track to meeting our deficit targets for the two years ahead—two per cent of GDP for 1997–98 and one per cent of GDP for 1998–99.

As a result, two major milestones are within reach.

First, by 1998–99, the government will be able to finance its deficit internally, without having to go to the financial markets for any new borrowing. In other words, for the first time in over a quarter of a century, we will not have to go to the markets for new money to pay for government programmes, nor to pay for interest on our debt.

New borrowing requirement is the way many other countries measure their deficits—the United States, Japan and Germany, for example. By 1998, according to this measure, Canada is expected to have a small surplus, and as such, will have the best financial record of any member of the G7. This is a turnaround of truly historic proportions.

The second milestone involves the debt. The ultimate measure of a country's financial health is its ability to manage its debt. That ability is best measured by what is called the debt-to-GDP ratio. Over the past two decades, Canada's debt-to-GDP ratio has been rising relentlessly. However, as a result of the actions we have taken, it is now stabilised. Soon, Canada's economy will be growing faster than our debt. The debt will become more manageable.

This is not of academic interest only, because what it really means is that more and more of the taxes Canadians pay will go to providing the services they need, rather than to pay bondholders. Only a few years ago the speculation among experts was about how large Canada's debt-to-GDP ratio would get. Today, it is about how fast the ratio will fall.

The payoff from all this, in terms of the everyday lives of Canadians, is unmistakable. As a result of the discipline that has been brought to the country's finances, interest rates are down dramatically. They are down in absolute terms—by almost five and a half percentage points in only two years. What is even more significant is that they are down in relative terms. For the past 20 years, short-term interest rates in Canada have averaged two percentage points above those in the United States. Today, they are about two and a quarter percentage points lower. This has not happened because of luck. It is a direct result of the confidence created by the fiscal course Canada is on.

Furthermore, the impact of lower interest rates is now taking hold. In the last four months, for instance, 85,000 jobs have been created by the private sector—and what is equally significant is that almost all of these have been full-time. Those sectors of the economy that respond most quickly to lower interest rates are growing strongly. Housing re-sales and the sale of consumer goods are just two examples. There is a strong consensus among forecasters—not only here but internationally as well—that in terms of economic growth in 1997 none of the seven major industrialised countries will do better than Canada. As a result, most Canadian forecasters are projecting that employment will increase by between 300,000 and 350,000 jobs during the course of this year.

Now it is clear that one of the reasons Canadians have supported our efforts to reduce the deficit is their belief that this will lead to a stronger economy, one that will create more jobs. And so, the question is: "Is the pay-off coming?" And the answer, very clearly, is "yes."

Now, some would say, having created the right fiscal conditions, that the role of government should now be to disappear from view. This is not a perspective that we share.

Globalisation and restructuring create real economic opportunities. But we also know that they can impose very real costs. The fact is that short-term interests of the market do not always address the long-term needs of the nation.

The role of government is not simply to stand aside. Its role must be to stand with those Canadians having difficulty adjusting to a turbulent world. And so, in this budget as in previous budgets, we are taking direct action to promote economic growth and the creation of jobs.

Short- and medium-term initiatives include trade promotion, including the unprecedented success of the trade missions led by the Prime Minister, the extension of the Canada Infrastructure Works Program for another year, the recent announcement of new programmes to provide jobs and of equal importance, experience for young Canadians and substantial acceleration of our initiative to link virtually every community in Canada to the communications technologies of the future. These investments are designed to have an immediate impact on growth—and to help bridge the gap to the stronger job creation that is now expected.

But in our view, as well, the role of government does not stop there. In constructing our economic plan, it was very clear that we had to look ahead, to invest for the long term, to take the actions today that are necessary to prepare Canada for a new century. We knew we had to broaden the notion of infrastructure—to take it beyond its traditional meaning to include post-secondary education, knowledge, and innovation. These are the building blocks of the new wealth of nations.

For example, Canadians know that a better education equals better jobs. That is why they are concerned about access to, and the affordability of, that better education. And so, in our budget, we announced measures that will, at maturity, provide $275 million per year in increased tax assistance to students and their families, to workers trying to upgrade their skills and parents wanting to save for their children's education. Students will get larger tuition credits. They will receive more help in paying back their loans. The period of time those facing difficulties can defer making Canada student-loan repayments is being extended from 18 to 30 months. In addition, we are strengthening incentives for parents to invest in Registered Education Savings Plans. And we are allowing individuals to transfer unused RESP income into their RRSPs if they have room.

Canadians know that just as broader and better access to higher learning is essential for success, so too there is another part to the equation. And that is the quality of the research facilities at our universities, our colleges and our hospitals, so that students have world-class tools with which to learn. This is where leading-edge skills are developed—skills that are necessary if Canada is to keep pace with a world on fast-forward and skills that form the foundation, the root system, for the creation of new products and new services in Canada—in other words, new jobs. And so, to renew our research infrastructure, we are establishing the Canada Foundation for Innovation with an $800 million investment. Through partnerships with research institutions, the private sector or the provinces, these resources could very well lead to $2 billion in needed investment.

Let me emphasise how much of a departure this represents from the norm of government initiatives. The Foundation will be set up outside government. It will operate independently of government. Investment decision will be made solely by a board of directors, the majority of whom will be drawn from the private sector and the research and academic communities. Why are we doing this? Our position is very clear. If we fail to invest in the infrastructure of innovation, we will short-change the next generation. We will fail the country of tomorrow. It's as simple as that.

Thus far, I have spoken about strengthening our economy. But equally pressing is the need to strengthen our society. Clearly, for Canadians, our publicly funded universal health-care system is at the top of that list. Our commitment to the principles which underpin our health-care system is unequivocal. They will be preserved. They will be protected. And they will be enforced. The ultimate test of a nation is its will and capacity to support those who are most vulnerable, to sustain the programmes on which everyone of its citizens depends.

But commitment to these principles does not mean adherence to the status quo. Indeed, maintaining these principles requires moving beyond the status quo. The point was hammered home recently by the National Forum of Health. The Forum makes it clear that the challenge confronting Canada's health-care system is not the overall amount of financial resources available. It is the efficiency and effectiveness with which they are spent. In direct response to the Forum's recommendations, we are providing $300 million over the next three years, every dollar of which will be devoted towards furthering innovation in the health-care system, better delivery of health-care services to Canadians.

In the same context, that is the need for a stronger society, let me turn now to an important issue which flows not from this budget, but from the commitment made in previous budgets—to protect Canada's retirement income system. Last week, an agreement was announced between the federal government and eight of Canada's provinces to preserve the Canada Pension Plan—to sustain it by strengthening its financing, reducing costs and improving the pension fund's investment practices.

My purpose today is not to review the details of this agreement, but I do want to go on record concerning some fundamental points. First, in the absence of the action we are taking, the CPP would not have been financially sustainable over the longer term. Some have said, if the federal government and the provinces had simply allowed contribution rates to increase to cover expenses on a pay-as-you-go basis, it would have meant that those rates would have had to be almost 50 per cent higher in the future than those we have agreed to—14.2 per cent versus 9.9 per cent. We did not want to saddle young Canadians with such an unacceptable burden—a burden which by itself would very likely have caused the plan to collapse. The increase in CPP contribution rates we have announced is not some first instalment, with more still to come. Shared equally between employees and employers 9.9 per cent is as high as the rate will go. It will not rise again.

Second, CPP premiums are not a tax. They are an investment in retirement savings. The government cannot spend this money. It will be invested at arm's length to gain stronger returns. It is money Canadians will get back and plus in their retirement. Indeed, the entire purpose of our reform is to make sure that Canadians can rely on it. They would not have been able to if we had not acted. They will be able to because we have.

The debate that is currently taking place is not about choosing to increase contribution rates. It's about choosing to preserve the Canada Pension Plan. The opposition to what we and eight provinces have done stems not from the details of the federal-provincial understanding, but from a fundamental disagreement over the very concept of the public pension system itself. We, the signatories of this agreement, come to this question with a very different set of values, one which goes to the essence of the kind of society we have created and wish to retain. We believe in a decent retirement for all of our citizens, from coast to coast. And we believe that coming together to safeguard a national savings plan—one with shared risks and shared benefits—is the fairest, most secure way to accomplish this aim.

This priority is also reflected in our actions relating to the other two pillars of our retirement income system. With the introduction of the new Seniors Benefit in 2001, we will have taken action to make the public pension system in Canada secure and sustainable for future generations while fully protecting all current seniors. The same reasoning applies to the third pillar of our retirement income system—tax assisted savings such as private pension plans and RRSPs. Despite the need to bring the deficit down, we have left in place almost $16 billion per year of tax incentives for Canadians to save for their own retirement. Indeed, in this budget, we have introduced a new provision which will restore lost RRSP room for workers who quit pension plans before retirement. This will make the retirement saving system fairer. Taken together, we can say today that no other industrialised country in the world has done as much as Canada has to come to grips with the challenges of an aging society. In so doing, we have looked ahead—securing pensions for this and future generations.

So far, I have spoken about our efforts to sustain existing national programmes. But government must also focus on the roots of the social problems of the future, addressing them before they arise. Clearly, the most effective and productive investment we can make as a nation is in our children. The evidence is clearly there. Every dollar spent on a healthy and secure childhood today, avoids the spending of many more dollars tomorrow.

The challenge is clear. Our children require services, whether that is health care, or remedial help, good nutrition or income support. Yet for too many children, those services and support are not there. In particular, in most parts of the country, children lose these supports when their parents move off welfare into the work force. It is bad social policy and bad economic policy when the price parents pay for joining the work force is to see the circumstances of their children actually worsen. And so, our budget takes the first step in improving the current system. We are providing an enriched and equal level of support for all low-income families. This is a platform on which the provinces will be able to build—giving them the flexibility to devote the appropriate funds for the services and support working families need. Our budget provides $600 million in new federal funds as of July, 1998, in addition to the $250 million increase in child benefits announced in the 1996 budget. This means that $6 billion will be provided annually to Canadian families under a new Canada Child Tax Benefit.

Some have said this is not enough. Let me be clear. It is absolutely critical that we and the provinces move forward together. This is a national project, not a federal programme. The new resources we are providing must lead to the provinces providing improved services and support for Canadian children. That, after all, is the entire point of this exercise. Discussions with the provinces in the weeks and months ahead will be critical to ensuring that the down payment we have announced serves its intended purpose. To those who seek further federal funding, this is a first step. It is not the last word. As I said in the budget: “This can be but the beginning. We will provide additional resources—as soon as we can afford it.” The reason is very clear. Opportunity denied in childhood too often means chances lost as an adult. The future of Canada’s children is the future of the country itself.

Thus far I have spoken about our expenditure priorities. Let me deal briefly with the other side of the budgetary equation—taxation. Our goal can be expressed in two words: lower taxes. In not one of our budgets has there been an increase in personal income tax rates. Indeed, both this year and last year, we have not raised taxes at all. In fact, both this year and last year we have put in place selective tax cuts where their impact would be greatest. For example, this year’s budget proposes selective tax cuts for low-income families, for charities, for Canadians with disabilities, for students and workers pursuing higher education and for parents saving for their children’s future education. In addition, the turnaround in interest rates that has flowed from fiscal restraint has put billions of dollars into the hands of Canadians.

With this as background, I’d like to discuss briefly the suggestion made by some that now is the time to consider a broadly based tax cut. Our position is very clear. We would like to reduce taxes further. But to put in place a broadly based tax cut now would be irresponsible. Indeed, this debate is only possible because of the headway we have made in reducing the deficit over the last three years. Let there be no doubt. Paying for a major new tax cut now would require cutting government programmes still further. This would put in jeopardy the core priorities of Canadians. Quite simply, we refuse to sacrifice health care, education or pensions on the altar of premature tax cuts. There will be a time to consider a broadly based tax reduction. But as we have said, we will not do it until we know we can afford it—and until we know it can be sustained.

Before closing, let me just summarise the underlying philosophy of the budget, as prelude to the discussion to follow. I have spoken about many aspects of our fourth budget. But the most important issue, in the end, is the whole of the budget, not just the parts. It is the goal we have been pursuing and the progress we are making in reaching it. It is no exaggeration to state that only four short years ago the economic future of our country was at risk. We were at the edge of a cliff. The country had to be pulled back. That is why we acted—out of necessity, not ideology. And so, as I draw to a close, let me just say one thing. There can be no going back. The days of over-reaching, over-spending governments are over. Nor can there be a return to the time when government could not, or would not, set priorities—and as a result spent too much on what didn't matter and not enough on what did.

What government does with its scarce resources, shows what its values are. Our government has set its priorities and we are investing in them. While continuing to bring the deficit down, we are providing substantial new resources to invest in jobs, in health care, in education, in our children. This is a reflection of our values. Eliminating the deficit is but a means to an end. It is not the end itself. Our purpose is not to serve the interests of bondholders. It is to restore our ability to serve the needs of Canadians. It is to return freedom of action to Canada, to give back to Canadians the capacity to design a new destiny for their country.

This, I believe, we are well on the way to doing. We have made substantial progress these last three years—progress that goes far beyond the arithmetic of the numbers. Rather than being forced to focus solely on problems inherited from the past, we are now able to look forward and invest in the promise of the future. Rather than being restricted to short-term measures alone, we are now at the point where we can look to the long-term investments Canada requires. Rather than being preoccupied solely with saving our essential national programmes, we are now in a position where we can consider together how to make those programmes even stronger.

Looking to the future, we believe we must continue to be true to the primary principle that has always governed our country—that the role of government is to look to both the social and economic needs of the nation. There are those on the extremes of left and right who believe it is possible to separate the health of society from the health of the economy. Some believe it is possible to maintain and strengthen the services on which Canadians depend—like health care or education—without ensuring a strong and growing economy. They are wrong, because it is only the resources generated by economic growth that provide us with the capacity to support a strong society. Still others believe that as long as the needs of the market are taken care of, individuals can take care of themselves. They too are wrong. A rising tide does not lift all boats. And an economy will never be strong if too many are left out in the cold.

The balance between a strong economy and a strong society is not the lowest common denominator. It is, in fact, the highest common ground. This goes to the very heart of Canada's national mission, the legacy that has fallen to us to carry forward. That mission lies in the pursuit of the balance between individual success and responsibility for those around us—the balance between reaching forward to the future, and reaching out to those in need and the balance between recognising the opportunities that arise from competition and acting on the obligations anchored in collective compassion. From decade to decade, from century to century, putting that balance to work in ways that lift the whole nation up has been the essence of our spirit, or our achievement of the Canadian dream. It is an unending journey, a quest of constant renewal, with each new generation rising to the challenge of a new time.

I have just described Canada's 1997 budget. Its underlying philosophy however was best described many years ago by a Canadian who spoke to his time and generation, in words that echo through to ours: "A nation thrives on confidence and falters with fear. The principle purpose of (our) measures is to banish fear and restore faith in our economy and our future. If, in the years ahead, we continue the balanced development that results from courageous investment—in our productivity and in our people—we will continue to build, in freedom, a structure that will stand the hazards of the years. It will endure because it centres, not on hate and despair, but on faith. It will endure because it takes its inspiration—not from the needy or the wealthy or those in between—but from the widespread conviction of Canadians that the welfare of each is the welfare of all." Those words were spoken by the first Paul Martin, some 44 years ago. That faith abides. The conviction lives on. Its strength must not, and shall not, diminish.

The appreciation of the meeting was expressed by Stanley Hartt, President, The Canadian Club of Toronto and Chairman, Salomon Brothers Canada.

February 26, 1997

A joint meeting of The Empire Club of Canada and The Canadian Club of Toronto

Wendell Cox

Principal, Wendell Cox Consultancy (St. Louis)

Steve Gilchrist

MPP, Parliamentary Assistant to the Minister of Municipal Affairs and Housing, Government of Ontario

Anne Golden

President and Chief Executive Officer, The United Way of Greater Toronto

THE MEGACITY DEBATE

Chairman: **Stanley Hartt**
President, The Canadian Club of Toronto

Head Table Guests

Anne Libby, Owner of Libby's of Toronto Art Gallery and a Director, The Empire Club of Canada; Rev. Dr. G. Malcolm Sinclair, Senior Minister, Metropolitan United Church, Toronto; June Rowlands, Former Mayor of Toronto; Bob Bell, National Director, Public Market Sector, Ernst & Young; Henry J. Pankratz, Deputy Chairman, Ernst & Young and a Director, The Canadian Club of Toronto; and Julie Hannaford, Partner, Borden & Elliot and President, The Empire Club of Canada.

Wendell Cox

It is a great honour for me as an American to address a Canadian audience on the very important issue of the proposed Toronto megacity. I want you to know that I do have some Canadian roots. My father was a preacher on Vancouver Island for a few years while McKenzie King was prime minister but, as I'm sure you'll notice, I didn't live here long enough to learn how to pronounce some of the words.

I am pleased to be on this panel with Anne Golden. The Golden Report under her leadership drew solid conclusions that are worthy of support.

I am also pleased to share the podium with parliamentary assistant Steve Gilchrist. As a Reaganite, market-oriented conservative, I am sure that Steve and I agree about much more than we disagree. But today, we are talking about issues on which we disagree.

I will discuss three fundamental problems with the proposed megacity:

- That it will weaken democracy.
- That it will not save money.
- That it threatens this city of which you are so justly proud.

First, on the issue of democracy, megacity violates the most basic principles of democracy. For hundreds of years, your ancestors and mine fought to replace absolutism and privilege with democracy. This is no time to reverse course. By no stretch of the imagination can it be considered a victory for democracy to move City Hall farther away. Communities will have less access to government. Bigger municipal government will be less sensitive to neighbourhood concerns. People will be relegated to second-class status, because effectively dealing with City Hall will require the hiring of lawyers and lobbyists. Special interests will gain great advantage.

Because of the inaccessibility of larger municipal governments, secession movements are underway. Staten Island is likely to secede from New York City in the next few years. A strong secession movement has developed in the San Fernando Valley of Los Angeles. Secession movements have developed in Boston, Oakland and elsewhere. One city has already seceded from the Winnipeg unicity, and more could follow.

Megacity is just too big. If it were a province, it would rank fifth in population. It would contain more people than the four Atlantic provinces combined. If amalgamating governments is such a good idea, why stop at megacity? Why not amalgamate all local governments into the province? Why not opt for a single government in Ottawa? Indeed, why shouldn't we combine it all in a single-world government? The reason, of course, is that there is an important and a crucial role for local government. There can be no justification for diluting democracy.

Then there is the issue of costs. We are being told that megacity will be less expensive. But that ignores the reality that larger governments are routinely more expensive than smaller government on a per-capita basis.

Consider the evidence from the United States. Cities of more than one-million population are 21 per cent more expensive per capita than cities of 500,000 to one million. Counties of more than one-million population are 42 per cent more expensive than smaller counties. School districts and transit districts become more expensive per unit of service as they get larger.

Let me digress here for just a minute. Some of these figures have been criticised locally, by citing exceptions to the rule. My data for cities is not a sample. It is an analysis of all 171 cities in the United States with populations of more than 100,000. I have excluded amalgamated city-county governments and I have adjusted the figures to account for services that are not provided by all cities. But the data is even worse for the 24 U.S. amalgamated city-county governments with more than 100,000 population. Amalgamated cities of more than one-million population are more than twice as expensive per capita as smaller cities. Further, from the 1940s to the 1970s, U.S. school districts and transit districts amalgamated to an unprecedented degree and their unit cost increases were unprecedented.

Why are larger cities less cost-efficient than smaller cities? Let me just mention five factors. Services will need to be harmonised among the former municipalities. They are likely to be harmonised upward, which will cost more money. Labour contracts will need to be harmonised among the former municipalities. They are surely to be harmonised upward. Can you imagine a trade union seeking parity with a less lucrative collective agreement? Larger governments need more bureaucrats. It is a geometric increase, not an arithmetic increase. The bureaucrats get paid more because in the public sector wages and benefits are directly related to the size of budget and the size of staff. Municipal trade unions wield more power. This raises the entire labour-cost base of the larger city. Indeed this reflects the only economies of scale in larger municipalities—economies of scale for special interests, of both the left and of the right. And, finally, as Jane Jacobs has noted, larger cities are less open to innovation, so they are less likely to implement more cost-effective alternative service-delivery strategies.

Indeed, there is virtually no evidence that amalgamation saves money. Even the KPMG report, commissioned by the Ontario government hedged away its projected savings. And the Deloitte-Touche report, released yesterday by the Borough of East York found KPMG's illusory savings non-existent. If you want to reduce the cost of local government, there is no better way than the competitive market. For example, the conservative state government of Victoria, Australia is requiring municipalities implement competitive tendering, and the savings have been far more than even the theoretical, though false savings that the government expects from amalgamation. As the Trimmer report put it, savings from larger units of governments rely on false economies of scale. Larger cities mean higher taxes, which are likely to drive away the very middle class that is the secret of your success.

Let me suggest that the savings from amalgamation will begin after the GST is repealed!

You have been told that amalgamation is a "fait accompli"—that Metro already accounts for 72 per cent of the combined Metro-municipality spending. But this is a false number. It includes Metro utilities such as TTC, but excludes municipal utilities. In reality, if you exclude welfare, which really should be handled at the provincial level, the six cities account for 56 per cent of spending, while Metro accounts for 44 per cent.

There is considerable justifiable concern about metropolitan services—services that go beyond municipal boundaries. Indeed, Metro is not the metropolitan area; the region does not end at Steeles Avenue. The region extends far beyond Metro. Many of the arguments advanced by the government to support amalgamation are appropriate only in this broader sense, and the government has wisely suggested creation of a Greater Toronto Services Board that would co-ordinate services throughout the metropolitan region.

But amalgamation could torpedo metropolitan co-ordination and co-operation. Remember that Pierre Trudeau used to talk about how difficult it was to be "in bed with an elephant"—that it was not easy sharing a continent with the United States. The same will apply to metropolitan co-operation in the context of megacity. The "905" municipalities will be reluctant to lend their full co-operation and support to a GTSB that is dominated by megacity.

You have a vibrant urban area in Toronto. It is admired around the world. It is internationally competitive and our American cities look to Toronto as a model of how to do things right. But cities are fragile, as anyone who visits American cities finds out quickly. If you implement megacity you are going to remove democracy, services are going to decline, taxes are likely to go up, the middle class will be driven away, and you are going to see businesses scatter to 905, 604, 403 and any number of other places. The bottom line is that you are looking to pay two to four hundred million dollars in transition costs to dilute democracy and to create a structure that will be more expensive in the future.

So what is the answer? It is to establish the proposed GTSB—to strengthen the existing municipalities and to abolish Metro. That will preserve democracy, and better position the area for improved competitiveness and cost efficiency.

And just a word on the transfer of social services to municipalities. Redistributive services should be financed at the societal level—such as at the provincial level—not at the municipal level. It would make as much sense for Ottawa to download defense to provinces as it does for the province to download welfare to municipalities.

Virtually all of the experts agree—and virtually all of the evidence demonstrates—that larger cities are less democratic and more costly. Amalgamation violates the fundamental principles that conservative governments hold dear. Margaret Thatcher's solution to municipal governance was to abolish the Greater London Council, not its constituent municipalities. It is, in the final analysis, a question of values.

It is about the right of the people to determine how they are governed. Canada has often relied upon referenda to decide important issues—and megacity should be no different.

To paraphrase Abraham Lincoln: "Government of the people, by the people, and for the people is government that is closer to the people."

Thank you.

Steve Gilchrist

It's indeed an honour to be speaking before you and giving the government's perspective and perhaps something a little different from what Wendell has just articulated in his point of view.

Let me start off by painting an historical context for this bill. Between the years 1889 and 1953, Toronto alone underwent 33 expansions—33 amalgamations or annexations, call them what you will—and in every one of those the provincial government was the body that created the enabling legislation. Of course in 1953 we saw the creation of Metro itself—the bringing together of a strong urban core with a lot of rural land for future development. Clearly the government of the day recognised there were very different issues, very different services that needed to be delivered in the urban and the rural parts of that community and that's why the second-tier government was created—to be the arm's-length arbiter of how you did that balancing act.

In 1967 our community had matured that much more. We had much more urban development throughout what we now know as Metro Toronto and the government decided that it was appropriate to go from 13 communities down to six. Now as we look around Metro Toronto, it is one homogenous urban city, from the far end of Etobicoke to the east end of Scarborough. There is very little land to be developed and, even more importantly, the infrastructure to service that is in place—the sewers, the roads, the schools and the libraries. We've made those investments; it is one city. In fact, ironically, since 1988 when we went to direct election in Metro council, every person that lives in Metro has been a voting Torontonian.

So that is the preamble to this bill. Clearly, the government recognises that there are choices to be made in terms of how the governance evolves to match the evolution of the city itself. We looked at a number of different options and you've heard some of them articulated in the press these last few weeks including the status quo, which even the mayors themselves said was not working. There was the four-city model and there was the one-city model. There were a variety of strengths and weaknesses to each of those arguments and I can't begin to do them all justice in the 10 minutes we have here today but Fortune magazine, when it was recognising the strengths of this community was talking about Metro Toronto. In fact they said the most reasonable place to live in terms of cost for an apartment was Scarborough and the nicest neighbourhood was in Markham. I think they misjudged the map and surely confirm what Wendell has said—that things don't stop at Steeles Avenue.

In fact there have been 60 different studies done just in the last five years on the issue of consolidating services. If consolidating a particular service, such as the fire departments, leads to tremendous savings to the taxpayers, and if as you go through those few services that are left in the hands of the municipal councils and in every one of those cases, an argument can be made for cost savings (and these case studies have done just that), then you are left with the conundrum that if it makes sense to consolidate all the services they oversee, why would you continue to have six or even four separate governments?

The most definitive response I think to that question was offered by the mayors themselves last fall when they prepared a document that gave an alternative to what we were talking about in moving to one city—how they would address the issue of cost savings, greater efficiency, more productivity from their staff and make sure the taxpayers had the biggest bang for their buck. They concluded that by consolidating services and by going to alternative service delivery you could save $240 million. The KPMG Study which, by the way, was commissioned to get a sense of comparison to the mayors' report, concluded $300 million. Let's leave their $300 million off the table. I'm prepared to accept the mayors' $240 million. Their conclusion was that we would save a quarter of a billion dollars by consolidating services. So that's what is on the table right now; that's the cost if we don't act.

Some councils have voted to take a different position. York has voted to explore complete amalgamation with Toronto. City of Scarborough Council voted to eliminate York and East York and go to a four-city model. Some of the submissions coming to the Legislative Assembly Committee have included that as one of the suggestions that we should follow. But there is a problem with that model. Even if you quibble on where those dollars are going, Metro does oversee 72 per cent of all the service delivery at the municipal level. Three-quarters of all the work is done by Metro. The other six cities are dividing the other 28 per cent and even that isn't done evenly. York and East York collect and distribute only one per cent of all the municipal tax load within Metro, yet they have a parallel political administration and bureaucracy to oversee all the functions and services they provide.

The reality is that there has been no consensus for an alternative to the model that we have put forward. The four-city model is not only flawed but the cities themselves can't agree on it. But let's say they did agree, even York and East York. Right now we have already integrated services such as police and transit, the administration of hostels and children's aid societies and homes for the aged. All of the "people" services, by and large, are co-ordinated under the Metro government. Is the suggestion that we would break all of these things into four? Or, as is more likely the case, would you create a special-purpose body, unelected, unaccountable, that would oversee it much like the TTC or the Police Service Board that has some elected representatives, but also has a number of people that you and I don't get a chance to vote for. You either face extraordinary confusion and expense to break up those services and put them back into four cities or go to a variety of special-purpose bodies that would be far less accountable than our elected officials.

It became clear to us there was only one real choice. As dramatic as it may seem to some, and certainly as revolutionary as it may seem to others, it makes sense. It makes sense from the viewpoint of saving money. It makes sense from the viewpoint of now having one instead of seven competing economic development offices that spend much time saying why you shouldn't go to the other part of Metro. Now we can have one message around North America and around the world that we have a common market. We have one city and we don't care where the investment is made within that city as long as the property-tax base expands from that new investment. We will all profit.

Similarly, issues such as actual-value assessment have come before us, and that is a reality that we will all face by January 1 of next year. For the first time, we'll have fair taxation in this province in almost 50 years. The bottom line will be that if you go to the four-city model you are beggaring the three cities that no longer benefit from the extraordinary assessment base in downtown Toronto unless you go back to a Metro-style model of pooling. Well, again, if you are going to go through that exercise, why are we creating the four different bureaucracies if the end result is to come together on issues such as taxation?

So in terms of our ability to attract new jobs and investment, it makes sense to have one city from that viewpoint as well. There are a number of mitigating factors that will offset a lot of the concerns I think that Wendell has expressed about the democratic aspects of this bill. One of the things that does not receive a lot of attention is the fact that after we have elected the 44 councillors, they will be broken up into six community councils—groups far smaller than even the existing councils in places like Scarborough, North York or even here in Toronto. And those councillors will be the ones who decide local issues. So we make a very clear distinction between those issues such as garbage collection and fire service, on which all of us have a right to expect equal standards, and certainly in the case of fire service the highest possible standards. We make a distinction between those and the purely local speed limits on your streets, whether there should be a cross-walk, whether there should be changes made to the shape of that community. That will be done by the six or seven local councillors. We've made that distinction. We've put that balance in place but we're not electing a second level of government to do that. It's no different from serving on the works committee or the planning committee. This will be just one other task of those councillors.

So the bottom line is all about vision. Our vision is that this is a great city that's going to become even greater. We will be able to attract new jobs and investment. We will be able to find the greatest possible efficiencies and cost savings by co-ordinating our service delivery and by ending duplication overlap. We will be able to accomplish at the municipal level all of those same goals that we set for ourselves provincially and that we are moving on. And if I may say, it's also consistent with what we campaigned on. We said on pages 12 and 13 of The Common Sense Revolution we would reform municipal government within our first term. We would seek to find those efficiencies. This bill does just that and we are confident it is going to lead to property-tax decreases in the very short term.

Thank you very much.

Anne Golden

Members of The Canadian and Empire Clubs, fellow panelists, ladies and gentlemen: I am pleased to speak to you today about the dramatic changes being proposed for our city region; and I am honoured to join the list of the illustrious speakers who have addressed this forum in the past.

Completing the GTA report in nine months wasn't easy. Summarising my thoughts about the megacity in less than eight minutes is even harder—but I'll do my best.

When people tell me that they are both anxious and confused about "the Megacity," they are referring not only to the proposal to amalgamate Metro's six municipalities into one City of Toronto, but to the series of announced changes which include assessment reform, structural reform within Metro and the GTA, the so-called disentanglement proposals for re-defining who does and pays for what, and finally, and to some most importantly, the process itself by which these mega-changes are being implemented.

The primary rationale being put forward by the government for these massive changes is that "the status quo is not an option." This has become a mantra, a ritualistic response to critics of every stripe regardless of the merit of their arguments.

Perhaps a little ironically, the Task Force which I chaired couched its recommendations in the same language. However when we noted that the status quo was not an option, our recommendations were grounded in research and made in response to a clear diagnosis of the problems. I believe that much of the present anxiety is because of the absence of a perceived logical link between the proposals for change and the real need for reform.

What in fact is the case for change? What are the key problems that bedevil the economic and social health of our city and our region? Unless we understand the case for change, we cannot intelligently analyse the current megacity proposals.

First, the property tax; there are two separate but related challenges. One is to stop the continuing erosion of the property-tax base through successful assessment appeals; the second is to reduce or eliminate the difference in the level of property taxes paid by businesses in Metro compared to those outside Metro. This inequity is encouraging businesses to migrate from Metro to other GTA municipalities, thereby further eroding the already compromised tax base. Unless this dual problem is solved, we face the prospect of the infamous "downward spiral"—a vicious cycle of reduced assessments, higher taxes and/or reduced services, which in so many cities south of the border has resulted in urban decay.

Let me be crystal clear. Unless this dual problem is solved, the mismatch between social needs and what the property tax can afford will intensify and we will experience the same kind of urban decline and central city decay that we have smugly assumed could never happen here. With so much at stake, will the government's tax proposals solve the problems? The answer is: "Partly."

The introduction of a comprehensive, uniform, and updated property-tax system based on current value assessment (we called it AVA) is the right thing to do. There is no alternative that meets the tests of both reliability and fairness. Phased in properly, it is the essential first step. Here the government is to be commended. However, the second and complementary step to assessment reform is some measure of GTA-wide business-tax pooling, with a uniform rate on businesses in the GTA to reduce the business-tax gap. To date, the government has not determined how business and commercial tax rates for education will be set, or whether there will be a uniform rate. They have said that the dollars collected from businesses will stay within the city region—and that is positive—but without a uniform rate, the incentive for out-migration of businesses from Metro will continue.

But where the potential for urban decay really lurks is in the current plan to download welfare and welfare-related costs to municipalities. Because society's most vulnerable groups are concentrated in Metro to a far greater extent than anywhere else, the pressure to raise taxes or cut services in bad times will be unavoidable. Since business taxes will also go up, the tax-gap problem for Metro's businesses will get even worse. Any plan to redistribute provincial and municipal funding and programme responsibilities that does not address these issues is unacceptable.

The property-tax crisis is closely linked to the second critical challenge: to make the Greater Toronto region economically competitive. To do so, both our Task Force and the Crombie Panel recommended the creation of a new regional governing body.

In light of the megacity proposals, we must remember that the problems of fragmentation that were identified exist not within Metro, but among the five regions of the GTA and between the municipalities and the province. Lamentably, in my view, the current proposals do not go far enough in addressing the lack of co-ordination that presently exists at the Greater Toronto regional level. The creation of a Greater Toronto Services Board would be a useful step only if it were accompanied by the simultaneous elimination of one of the levels of government below it—and this is not part of the current plan. As it stands, the current plan would leave us with, for example, 20 economic development departments, one for Metro representing 50 per cent of the region's people, and 19 others competing with Metro on behalf of the other 50 per cent. This doesn't make sense.

We need a new government structure that will facilitate a more strategic and integrated approach to managing the growth that will come with the expected addition of some two million people to this city region over the next 25 years.

This brings me to my third issue, also fundamental to our economic competitiveness, which is the need for more integrated planning of land use and infrastructure, such as transportation across Greater Toronto. This is necessary to avoid both the environmental costs of inefficient land use and the unnecessary spending of billions of dollars over the next 25 years. This is money that will be wasted on roads, sewers, and schools, for example, that we wouldn't need if we moved to more compact urban development. These savings could then be redirected into human services—services which underpin our exceptional quality of life. And it is this quality of life that is our city region's single greatest comparative advantage.

My real concern about the megacity unification plan is that it will make this essential regional agenda more difficult to achieve. If amalgamating Metro's municipalities solves a problem, that problem has yet to be identified. The main point about megacity for Metro is that it misses the point!

The fourth critical issue is the need for more entrepreneurial, more cost-effective, and less-entangled government. Our research confirmed problems of excessive duplication, overlapping mandates and, in some instances, jurisdictional gridlock—but the problems identified were between the five regional governments, not within Metro. Our research also confirmed that the opportunity for cost savings and improved efficiency was tied to the injection of competition into the management system, not the elimination of a few dozen politicians or senior officials, as some suggest.

And so we must ask the question: "Will a single, bigger bureaucracy in Metro be more cost-effective?"

The evidence says no. Beyond a population of one million, most service mergers create diseconomies of scale, because salary settlements and service standards migrate to the highest level when wage and service structures are integrated. For example, merging fire departments saves five fire chiefs' salaries, while the salaries and benefits of thousands of firefighters rise. A single bureaucracy reduces opportunities for efficiencies through contracting out, and for innovations that occur when various jurisdictions are able to do things differently. (Jane Jacobs feels strongly about this point.)

Time does not permit a full refutation of the unsubstantiated claims of cost savings which have been made. Suffice it to say that alarm bells should go off when defenders of megacity resort to superficial and hastily produced studies to make their case. The Deloitte & Touche study released yesterday makes the same point.

Finally, I want to say something about the process. Today's polls confirm that people from across political, income, and occupation spectrums share anxieties about a process they see as overly hasty, insufficiently thought out, and heavy-handed. Signs of government flexibility on some of the issues are in the air. I hope that this flexibility will be applied to the critical issues highlighted here.

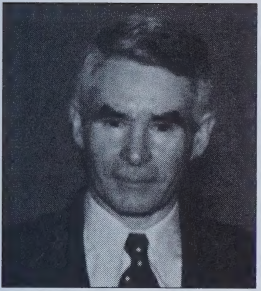
To recap, the real task before us is to create the capacity for region-wide problem solving, combined with effective local government. The government's proposals for assessment reform and a GTA-wide body are relevant and constructive, but the current proposals to download welfare, social housing and long-term care are destructive. These must be revamped to meet three essential criteria: one, to ensure that municipalities aren't forced, because of an inadequate tax base, to abandon their responsibility to meet people's needs; two, to prevent the inequitable and asymmetrical impact on Metro Toronto; and, three, to avoid further polarisation between city and suburbs.

As for the plan to "Megacitize" Metro, it is irrelevant at best and possibly counter-productive. Counter-productive because it distracts us from the real task. It absorbs our energy and creates needless anxiety and alienation. It also creates a new problem—that of ensuring adequate citizen access to decision making, for which compensating new local councils and committees are now being proposed.

My greatest concern about the combination of proposals before us is that they foster a political climate and dynamic of unhealthy competition instead of regional co-operation. It is this destructive competition which has polarised U.S. city centres and their suburban municipalities. It is this polarisation that has produced the too-familiar pattern of over-concentration of poverty in their inner cores together with the continuous outward flight of money and jobs to newer and more distant suburbs.

This not a road worth taking, but if we fail to grasp that we are all in this together, we will go down this road whether we want to or not.

The appreciation of the meeting was expressed by Julie Hannaford, Partner, Borden & Elliot and President, The Empire Club of Canada.



February 27, 1997

His Excellency, Tadeusz Diem

Ambassador to Canada for the Republic of Poland

POLAND AND THE TWENTY-FIRST CENTURY

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

William Duncan, Director, The Empire Club of Canada; The Rev. Kim Beard, Rector, Christ Church, Brampton and a Director, The Empire Club of Canada; Roger Wright, President, Menasco Aerospace Coltec Industries; Mrs. Ada Diem, Wife of Ambassador Diem; Bernard Wilson, FCA, Past Chairman and Governor, Canadian Chamber of Commerce and Partner, Price Waterhouse; Gareth Seltzer, Vice-President, Private Banking, Guardian Capital Advisors and a Director, The Empire Club of Canada; Amanda Leduc, OAC Student, Central Technical School; Edward S. Jurus, President and General Manager, Kodak Canada Inc.; and John Garbin, Vice-President, Royal Building Systems, Royal Group Technologies.

Introduction by Julie Hannaford

It is now axiomatic to observe that the face of Central Europe is transforming. What is less well known is the transformation on the horizon for Eastern Europe.

The encounter with democracy and the concomitant changes in economic policy, popular governance, and global attitude shall surely define the end of the 20th century not only for Central and Eastern Europe, as the signal events not only within Central and Eastern Europe, but for North America, as we align ourselves with a globalised economy.

His Excellency Tadeusz Diem is a special guest today, not because he is coming to the end of his term as the first Ambassador from Poland since its rebirth as a free and independent state in 1992, but because he has been a part of the transformation in Central and Eastern Europe, as well as a witness to it.

He is an academic, a thinker, a politician, a fighter for freedom and a statesman.

In 1963, he began his professional career at the Warsaw University of Technology carrying out responsibilities as head of one of their research teams. He holds a Doctorate in technical sciences and is a specialist in the fields of mathematics and the chemistry of polymers and biopolymers. He is the author of numerous scientific papers, and the developer and holder of more than 50 patents. He has held posts as researcher and as a visiting professor at the University of Akron, at Marquette University and Lehigh University.

His political career began with his membership in Solidarity, in September, 1980, and as the organiser and member of the board of Mazowsze Region. He was the delegate for the First Congress of Solidarity, and Chairman of the Resolution Commission. He was interned on December 13, 1981 in internment camps.

In October, 1989, Tadeusz Diem was appointed Deputy Minister of Education. He was also the President of the Polish Committee of the Mitterand Foundation.

Tadeusz Diem is now coming to the end of his term as Ambassador for the Republic of Poland to Canada. His insights about Poland, as well as Central and Eastern Europe at the turn of the 20th century, are now informed by perspective he has gained during his term as Ambassador to Canada. It is therefore with great pleasure that I ask you to welcome to The Empire Club of Canada, His Excellency Tadeusz Diem, and in so doing to thank him for his exemplary, courageous service.

Tadeusz Diem

Madame President, Rev. Father, ladies and gentlemen, friends and compatriots:

I wish to express my great pleasure at having been invited by The Empire Club to share with you a few observations regarding the latest developments in Central Europe from Poland's perspective.

As was mentioned by Madam Chair I am nearing the end of my mission as the Ambassador for the Republic of Poland to Ottawa and will soon be returning to my country, so these remarks reflect also the collaboration with the institutions and people of Canada.

The 20th century is coming to a close and as such, talking about the 21st is not idly engaging in futurism. It is in fact dealing with an imminent reality. I wish to inject a note of optimism into what I will say today regarding Poland.

Now why would I be optimistic about a country that has been so severely tested and tried by history and its neighbours over the past 1,000 years? Why? Because we have survived as a nation and because we started the change and transformation process in Central Europe. The birth of "Solidarity" and the vision of Lech Walesa, the former President of Poland and Nobel Peace Prize nominee, started a chain reaction of which we are justly proud. Indeed, the processes which started in Gdansk in 1980 revolutionised that part of the globe, restoring democracy to several countries of Central and Eastern Europe. This vision and determination to remain an independent and democratic country is what will carry us confidently into the 21st century. We have a millennial history, but that is our past.

What about the future?

Over the last seven years we have remodelled our country. Poland is now a democratic state in the true meaning of the word. The legal framework and all institutions of a democracy are in place. We have an elected Lower House and Senate and our local municipal government is also elected. The final stage of our transformation will be the ratification of our draft constitution by a nationwide referendum to be held later his month. Similar but different transformations have occurred in the Czech

Republic, the Slovak Republic, Hungary and others. They too have become democratic states, so we can say that this first stage of the process is over.

The 90s, the last decade of the 20th century gave birth to a new Central Europe. So what does the future promise for Poland in this context?

Let's begin with the economy, the foundation of a free and competitive society. The economy of Poland was the fastest-growing economy in Europe for four consecutive years. Our GNP growth, for instance, was seven per cent in 1996. I could mention that industrial production grew by 12.9 per cent when the total deficit we inherited from the communist system was reduced to 57 per cent of our GNP. The engine of this rebirth is a young highly motivated population with high intellectual potential, a potential that grew out of our strong education tradition, a potential we are willing to share with others since we are the youngest society in Europe.

Now as we look to the new millennium we have to ask ourselves: "Where is Central Europe going?" Poland and the other Central European nations have clearly opted for integration with the western democracies. We share many values that stem from our common Christian heritage and democratic behaviour. The integration process is well on its way. Poland's clear intention is to become a full member of the North Atlantic Alliance and the European Union. This is our aim; this is our society's desire and our challenge.

Our expectations are high and generally optimistic in this world full of frustration and pessimism. We laid a solid foundation for our democracy and we are able to fulfill all obligations and requirements to join these transatlantic international institutions.

How do our aspirations regarding western integration impact on our relations with our eastern neighbours? I can truly say that with regard to the Russian Federation and the Ukraine, both very important countries, our relations are based on a mutual understanding, a good neighbour policy of friendship and relations on an equal basis. Our relations with the Baltic States and Lithuania in particular, our friend for over five centuries, are of special importance to us.

Our moves towards western integration and our good relations with our friends to the East are our priorities and aims.

While the rebirth of Central Europe was the most important phenomenon in the last decade of the 20th century, I strongly believe that the first decade of the 21st century will see the rebirth and transformation of Eastern Europe. We as democracies have to ask ourselves: "What are our obligations towards our friends east of Poland who are rebuilding their economies and moving towards democracy?" This implies change and changes are always difficult.

Central Europe is not expecting any threat from any direction. But Central Europe is the security vacuum zone. In order to prevent any future situations or temptations we are seeking full membership in NATO. We want to become a member of the Alliance for the very same reasons that Canada and 15 other states have joined. Our future security depends on it. Poland because of its geographical location has been severely scarred over the centuries. We all remember the destruction and suffering caused by the Second World War, so I will not elaborate on the consequences of that war for Poland. It is our obligation, and we must seize the opportunity to prevent a similar catastrophe in future.

So our expectations are that this year in Madrid NATO will invite Poland along with several other Central European states to begin negotiating the terms of accession. We believe those negotiations will be concluded successfully and by April 4, 1999, the 50th anniversary of the establishment of this vital organisation, we will be full-fledged members of the Alliance.

From the Polish perspective it is very fortunate that North America including Canada are involved in this partnership. Europe cannot manage all of the remaining problems by herself. This transatlantic link is crucial not only for European security but for the rest of the world as well. Poland which is probably the most pro-American country in the world does understand the importance of this link.

Co-operation is crucial within the context of European and world security. No country can deny the transformations occurring in Poland and no country has veto power on Poland's legitimate desire and right to built our own security.

Now we should look at the role of the western democracies in this transformation process. Your assistance during the early stages was of great help and was much appreciated, but now the times call not for direct help but for co-operation and openness.

Poland's trade with EU is not marginal. It is at present 65 per cent. If Europe was more open to our products we could successfully compete in this market. Total foreign investment in Poland is growing rapidly. Investors coming to Poland find a legal framework that welcomes foreign capital and allows for full transfer of profits, a highly skilled labour force from tradesmen to PhDs, and friendly open people wanting to co-operate. This is what you can expect from us.

When referring to collaboration I do not mean direct help. I see instead a form of partnership with Poland and Central Europe to undertake joint projects to support the development efforts of Eastern Europe.

Unfortunately we do have to admit that Eastern Europe is facing several major national internal and external problems at this time. There is room however for a special form of co-operation that should exist between the western democracies and Central Europe which could flow to Eastern Europe.

Finally let me deal with Canada and Canada's involvement. Canada is a unique country in the world. It is the best country in the world, a country which was never an oppressor but one to always offer help. Canadian-Polish friendship goes back 130 years when the first Polish settlers came to Ontario. I think Poles can legitimately claim that they made a great contribution to the building of your beautiful country. I would like to mention that the Canadian-Polish community is one of the best and an excellent representative of polish traditions and intellectual life.

As well Poland and Canada have served together on various peace-keeping missions throughout the world and are presently together in Bosnia. Canada and the Central European countries are playing an important role in the vital process of restoration of peace.

Canada is a country where all cultures live in harmony. Canada's cultural and political environment has attracted immigrants from all over the world and this has created a special quality of life that has been recognised by the United Nations.

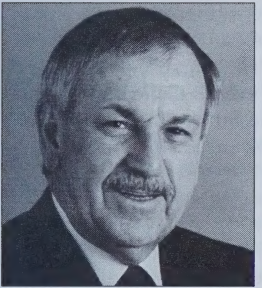
We wish you well in all your endeavours. I strongly believe that Canada and Central Europe must extend their horizons a little further to the East.

Let me conclude by thanking Canada for its contributions to the process of transformation in Poland. Thank you for broadening and strengthening the scope of our relations and let me express our gratitude for understanding and supporting Poland's goal of integration. The Prime Minister's statement that there is a moral obligation to help Poland and other European countries to join NATO has special meaning and value for us and we thank him for that.

With your permission Madame Chair I think it would be appropriate for me to say a few words in my mother tongue. (Mr. Diem then made a few remarks in Polish.)

Thank you and good bye.

The appreciation of the meeting was expressed by Gareth Seltzer, Vice-President, Private Banking, Guardian Capital Advisors and a Director, The Empire Club of Canada.



March 3, 1997

A joint meeting of The Empire Club of Canada, The Canadian Club of Toronto and The Canadian Journalism Foundation

Roger Landry

President and Publisher, La Presse

THE MEDIA AND THE UNITY ISSUE

Chairman: **Julie Hannaford**
President, The Empire club of Canada

Head Table Guests

John H. Tory, President and CEO, Rogers Multi-Media and Second Vice-President, The Empire Club of Canada; Rev. Cameron Brett, Senior Minister, St. Andrew's Presbyterian Church; John Honderich, Publisher, The Toronto Star; Erhard Buchholz, President and CEO, Canada Lands Company Limited; Donna Logan, Executive Director of Media Accountability, Canadian Broadcasting Corporation (Vancouver); Dr. F.L.R.(Eric) Jackman, Chairman, Jackman Foundation and a Past President, The Empire Club of Canada; Jennifer Reynolds, Fourth-Year Journalism Student, Ryerson Polytechnic University; Roger Parkinson, Publisher and CEO, The Globe and Mail; Knowlton Nash, Broadcaster, Author and Chairman, The Canadian Journalism Foundation; and Stanley H. Hartt, President, The Canadian Club of Toronto and Chairman, Salomon Brothers Canada.

Introduction by Julie Hannaford

This year, The Canadian Club of Toronto celebrates its centennial, with its series of addresses by Canadian prime ministers that marks 100 years of service by The Canadian Club to the Canadian public, in providing a forum in which debates over issues of national and international significance are offered to the Canadian public. In the year 2003, The Empire Club of Canada shall also celebrate its centennial and will do so with a series of events dedicated to The Empire Club's century of providing a forum for the presentation of and debate amongst leaders in the national and international community.

If these two clubs and these two mandates sound similar it is because they are, and yet within each of the two societies represented by The Empire Club and The Canadian Club run histories that make us distinct (albeit more often to ourselves than to others). It is important to note that our two clubs have also shared an important tradition which in many ways has maintained the strength of our individual joint enterprises: that is, at regular intervals throughout our year, our joint clubs combine and offer joint platforms for the debate and discussion of issues that are of particularly important interest to the constituencies of both the Canadian and Empire Clubs.

This year, the joint ventures between The Canadian Club and The Empire Club have expanded to include a tripartite venture, in which The Empire Club and The Canadian Club are joined by The Canadian Journalism Foundation in offering a series devoted to and exploration of the media and its role in the unity debate, the workings of justice, and concentration of ownership.

The Canadian Journalism Foundation is devoted to three goals: professional development broadly defined; recognition of outstanding contributions and lifetime achievement; and research to build a more solid academic underpinning to the profession of journalism and to develop a better understanding of how we are influenced by and learn from the media.

We begin our series with the issue of the media and national unity, and we do so at a time of relative media silence on this issue. It is, therefore, auspicious that our guest addresses our joint clubs in the eye of the media hurricane. Too often, in the thick of an issue, we as consumers of media having been fed a diet of dramatic sound bites, prefer and indeed demand the heat of conflict, confrontation, and controversy, rather than the cool reason of debate, reflection and context. While we are quick to blame the media for elevating controversy over reasoned historicism, at the same time we as a nation are too often the first to reach for the ubiquitous remote control, to avoid that reasoned debate in favour of the action served up elsewhere.

Our guest today approaches the issue of the media and unity from the perspective of a career devoted to the role of the press, the publisher and the individual in society today.

Mr. Landry was appointed President and Publisher of La Presse in 1980. He serves on the Board of Directors of Les Quotidiens du Quebec Inc., of The Canadian Press and of the Board of the Canadian Daily Newspaper Association. He has worked in the cultural, charitable, and social sector as General Chairman of the 1986 Centraide programme, as well as for the Montreal Symphony Orchestra and for Les Juenesses Musicales du Canada.

In 1987 Mr. Landry took part in the organisation of the Governor General's Study Conference as Chairman of the Communications Committee and member of the Management Committee. In 1989 and 1990, Mr. Landry participated in Quebec's task force on the fight against drug abuse. He was a member of the Consultative Committee of the Order of Canada, of which he has been a Companion since January, 1997. In November, 1995, the B'Nai Brith Canada Foundation distinguished Mr. Landry with its Award of Merit, an honour conferred every two years in recognition of an exceptional contribution to society.

On behalf of The Canadian Club of Toronto, The Canadian Journalism Foundation, and The Empire Club of Canada, it gives me great pleasure to ask you to join me in welcoming Mr. Roger Landry to open our journalism series today.

Roger Landry

Mr. Chairman, ladies and gentlemen, I am honoured to be able to speak to you today here at one of Canada's most prestigious public forums. Your invitation has given me the opportunity to visit Toronto once again and to remark, as I always do, just how much is happening here. I must confess that as a citizen of Montreal, a city deeply affected by political uncertainty, I am somewhat envious of you.

The fact that I, a French-speaking Quebecker, have been asked to speak about the media and the unity issue, suggests immediately how I am expected to define that issue. It is clear that among all the public debates currently under way, there is only one that is a direct threat to the unity of our country: the debate over Quebec.

Arguments are a fact of life for any self-respecting family. I would not go so far as to say that arguments keep a family together, but they do perhaps make it possible to maintain some balance between family members. In the same way, differences of opinion are the very foundation of the democratic system that we cherish so dearly. In totalitarian countries and dictatorships dissent does not exist. You pick up a newspaper and all you read is good news. Everything is rosy!

The ancient Greeks, or more specifically the Athenians, are said to have invented democracy. Like most Mediterranean peoples, they enjoyed open-air public discussions. The citizens of Athens gathered regularly in the public square, or the agora, to debate the problems facing the city-state.

In today's modern democracies, citizens have relinquished much of their right to speak out to politicians, whom we might define as professional, full-time debaters. The lion's share of the action takes place in a small, enclosed agora—parliament—a word derived from the French verb parler, to speak.

During the eighteenth century, the news media developed alongside the revolutionary ideas that gave rise to parliamentary democracy. It was the media that gave the ordinary citizen a window on the nation's debates. When you think about it, the media is nothing but a huge virtual agora, where the actors on the political stage—career politicians, lobby groups, the establishment and ordinary citizens—can debate the problems of the country and how to solve them.

According to this theory, it is not the media that create the disputes. The media are only, as we often hear, a reflection of society itself. For my part, contrary to what you might expect from a newspaperman, I am prepared to admit that the media are at least part of the unity problem.

Journalists who report on politics do not reflect the debate from a completely neutral perspective. They single out the most sensational remarks. That's only natural: they can't always just report the same old platitudes. Since they don't always have time to double-check everything, mistakes sometimes slip through. And—let's be honest—they are influenced by their own opinions and interests. Yes, even journalists are human.

In the 1970s parliamentary reporters in Quebec City came up with a story to illustrate this universal tendency. Had Premier René Lévesque one day miraculously walked across the St. Lawrence, they claimed the headline in La Presse would have read: "Lévesque a marché sur les eaux (Lévesque walks on water)" while in The Gazette, the headline would have been "Lévesque can't swim!"

The physical constraints of space or airtime are also very important. In radio and television news reports, where the average story lasts less than a minute, reporters have no choice but to limit themselves to "sound bites"—short, punchy statements clipped from the comments of politicians. On television, the picture often adds to the sensationalism.

News directors, editors-in-chief and assignment editors also play a major role since they decide on the content of the newspaper or the news broadcast. They choose not only what news stories to cover but also the relative importance of each story. They have dozens of decisions to make in a day, and little time to think about them. And they too are not immune to making mistakes.

At a newspaper there are editorial writers, columnists and commentators who each analyze the same news stories, put them in perspective and try to interpret the meaning behind the vast range of opinions and points of view. For their part the electronic media use public affairs programmes that take the time to explore the same subjects in greater depth.

And that's the real problem. The media put all their efforts and resources into covering the very people who accentuate the divisions between Canadians: the politicians. They invest little energy in reporting on Canadians themselves, beyond the everyday political squabbling.

In general, we are wrong to concentrate our efforts on parliaments instead of on our country and Canadians. At La Presse, we have chosen new ways to report on events across Canada by sending our journalists to different parts of the country to write in-depth articles, rather than dispatching full-time reporters to cover parliamentary proceedings in other provinces.

I would now like to look more closely at the responsibility of the media with respect to the debate on the unity issue, both the Quebec media and the media in the other provinces.

Whether here in Toronto or elsewhere in the nation, it is normal to feel aversion towards those who are bent on destroying our country, Canada. This is only natural. But there is no doubt that these feelings have a powerful impact on the tone and content of your media, which are inevitably, pro-Canada. I know of no media in English Canada going out of their way to be fair and equitable to the Péquistes. And that's O.K. It's understandable.

However, the situation is completely different for the mass media in Quebec, where a democratically elected government has made separation its goal and where the voters split 50-50 on whether to stay in Canada or to separate. This situation forces Quebec media to demonstrate a more neutral attitude to the various people in the news and to aim for objectivity as best they can in their coverage.

During the most recent referendum campaign, Quebec media, as a whole, tried to present a balanced view of the two options. It was first and foremost a question of journalistic ethics, as well as respect for a deeply divided population.

According to a study by Denis Monière, a political science professor at the University of Montreal—and a separatist, by the way—the two main French-language television networks in Quebec (Radio-Canada and TVA) provided "remarkably balanced" coverage. Radio-Canada's news reports apparently featured 285 YES supporters and 284 NO supporters. The average length of time devoted to the two sides was identical, differing by only two seconds. This balanced coverage of the referendum was no accident. It was practically an obsession among the media involved.

I must point out that this was exceptional. Things don't normally happen this way. Coverage is never as polarised and media attention is determined by the changing tides of current events and the unpredictable nature of the profession.

The overwhelming majority of Quebec newspapers that run editorials came out in favour of maintaining federal ties during the referendum campaign. Nonetheless, editorials had to take great care to qualify their position. We at La Presse urged our readers to vote NO to separation, but in our minds this did not mean we were recommending the status quo, far from it.

The very close outcome of this second referendum on Quebec sovereignty was also interpreted by the vast majority of editorialists, both in Quebec and in the other provinces, as a desire for change. A study by CARMA International, an American firm specialising in computer-assisted media analysis, found that over two-thirds of the editorials in 26 dailies across the country had concluded that there was a need for fundamental change. I'm jumping ahead a little here to the second half of my address, but I have the impression that some politicians in Ottawa are among the only ones who didn't get the message.

So, in Quebec we have media that generally try to provide neutral coverage and ensure objectivity, while the media in the rest of the country share the legitimate fear of their fellow citizens about the nation breaking up. Of course, when I refer to the Quebec media, you have to disregard Le Devoir, which has a hard-line sovereignist stance, and The Gazette, which is now totally devoted to the defence of the English-speaking minority in our province. In both of these newspapers, Canada-bashing and Quebec-bashing are given free rein.

I remain convinced that the media can again be part of the solution if they are provided with the opportunity to do so. It seems that some federal politicians are not taking advantage of the opportunity that is being provided by the forthcoming federal election to include on their campaign agenda proposals for change that would deal with the single most important threat to the existence of our country. It would be unfortunate if politicians did not seize such an opportunity, particularly when the present government of Quebec has promised another referendum before the year 2000.

I have nothing against the so-called Plan B. It has the merit of getting sovereignists all worked up by attacking the shaky foundations of their platform and evoking the possibility of partitioning Quebec in the same way that Quebec could be separated from the rest of Canada. I see a certain usefulness in Plan B, provided we never have to resort to it. For that to happen, we have to keep the sovereignists busy worrying about Plan B while we work hard on Plan A. In the same way that the federal government has finally got around to managing our financial crisis, it now needs to manage the political crisis, and come up with Plan A.

I am the publisher of a newspaper whose news policy is to strive to be neutral and objective, and whose editorial orientation is federalist. This is not always popular in a province where nearly 50 per cent voted YES to separation. At the next federal election, I would like to be able to present our readers with something encouraging about the future of Canada.

A friend of mine, who took part in the big unity rally on October 27, 1995 in downtown Montreal, just three days before the referendum, told me about the strange feeling he had as he walked down the middle of the street in the biting wind, elbow to elbow with thousands of other federalists. Fifteen years after the 1980 referendum, he mused, our politicians still haven't managed to settle this problem and here we are again, in 1995, in this dreadful situation where the very existence of our country is at stake. If we win on October 30, 1995 we will have to take matters in hand to make sure there will be no third referendum.

Many others who demonstrated on October 27, 1995 must have had the same feeling, since this huge event spawned a host of small citizens' movements to pick up the slack from politicians who don't know how to deal with the crisis.

I hope I am wrong in thinking that politicians in Ottawa have an easy time avoiding this debate because Canadian opinion leaders outside Quebec have given up. We too often see people in other provinces, including leading intellectuals and think-tanks, throw up their hands and say they're fed up with Quebec's griping, separation is inevitable and, by George, if Quebec separates Canada can get by without it.

We all know that is not true. Every part of Canada makes it the great country that it is. Be it B.C., the Territories or the Prairies, be it Ontario or the Atlantic Provinces, be it Quebec.

Unfortunately, apart from the occasional group or individual who publicly quits, there are thousands more who sit back, arms crossed, silently waiting for the die to be cast. It's hard to know to what extent this feeling of resignation is shared by English-Canadian opinion leaders. I sincerely hope it's just a passing phase.

I admit that, like many other federalist Quebeckers, I feel terribly isolated at this point in the debate, trapped between the sovereignists who continue to spread their propaganda, and their opponents who want to carve up Quebec or simply give up in the face of radicalism. Since the referendum, very few voices have been raised in the Canadian agora to sing the praises of federalism and to promote Canadian unity.

However, being an eternal optimist, I am hopeful that the elite in English Canada will soon return to Plan A. In fact, the only realistic solution to the unity issue lies in a revitalised federalism that eliminates the raison d'être of the Parti Québécois.

When Alberta Premier, Ralph Klein, came to Montreal in February of last year, our Canadian unity specialist at La Presse, Gérald Leblanc, accompanied him to an Outremont restaurant where he met with ordinary citizens. Over lunch, one woman told him that "Quebec just wanted to be recognised and protected." Mr. Klein was so impressed by this little statement that he left feeling that he finally understood Quebec.

I sincerely believe that if Canadians are willing to demonstrate a little sensitivity and open-mindedness, it is possible to settle this dispute. It has already lasted far too long. I am convinced that most French-speaking Quebeckers do not want to break up Canada, a country they still consider their own.

So, what can we do to avoid the worst-case scenario? According to a report, Professor Charles Taylor, a political scientist with deep roots in Montreal, had this to say at a seminar organised by the Business Council on National Issues: "The political system is at a standstill. Ottawa reacts intermittently, and the provinces are afraid of mistrustful public opinion. Civil society must take up the fight and bring proposals to the political arena."

I share his point of view. I truly believe that citizens, starting with the elite, must now carry the torch of Canadian unity and put pressure on politicians to stop their long-winded discussions and dithering over the question. It is time to take action and create the necessary changes. The real solution to the Quebec-Canada impasse lies in change.

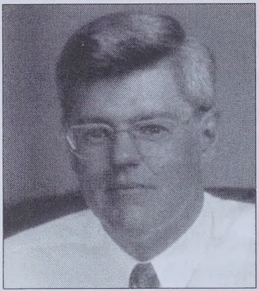
In general, despite their imperfections, the media in Quebec and across the country want to act in a responsible and ethical manner with respect to the unity issue. In the same way that the media are part of the problem today, they can also be part of the solution if they are presented with reconciliation projects. If ordinary citizens and the Canadian elite give the word to launch a movement for change in Canada, then I am convinced that the media will jump on board, because that's our role, to reflect the concerns of the communities we serve.

After nearly 40 years of futile and destructive bickering, it is high time we settled this question. If there were to be a third referendum, it would again be French-speaking Quebec federalists who would make the difference. At this time, French-speaking federalists are fed up with the chronic political instability that is so damaging to the economy of Quebec, particularly that of Montreal. I fear that if there are no substantial changes by the next referendum and if they have the distinct impression of having been abandoned, then many French-speaking federalists will be inclined to vote YES, for better or for worse, to settle the matter once and for all.

If that happens, history books of the future will justly assign to Canadians of our generation the title of "quitters"—if not of cowards.

Thank you.

The appreciation of the meeting was expressed by Stanley H. Hartt, President, The Canadian Club of Toronto and Chairman, Salomon Brothers Canada.



March 6, 1997

The Hon. John Manley

Minister of Industry

THE CANADIAN TELECOMMUNICATIONS INDUSTRY AND SATELLITE TV IN CANADA

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Bill Laidlaw, Director, Government Relations, Glaxo Wellcome Inc. and a Director, The Empire Club of Canada; Winnie Chung, OAC Student, Eastern Commercial; Graeme Woodley, President and CEO, Digital Equipment, DR.; Larry Milligan, Vice-President, R&D, University of Guelph; Colin D. Watson, President and CEO, Spar Aerospace Ltd.; Thomas L. Wells, Former Ontario Agent General in the United Kingdom and a Director, The Empire Club of Canada; Rev. Donald Butler, Minister, Church of the Nativity; John Rogers, President and CEO, MDS Inc.; and Paul L'archeveque, Senior Vice-President, Customer Development, Glaxo Wellcome Inc.

Introduction by Julie Hannaford

If the popular media over the last decade has taught us anything, it has been that we as a society have undergone a change in our focus from a pre-occupation with the quality of life to a much more immediate pre-occupation with basic survival. We are told that this "survival" mentality arises in response to massive changes in industrial production, modes of communication and demographic shifts. Economies take longer to adapt to such shifts and therefore serve up critical issues of their own.

We know our society's pre-occupation with survival is complete when the self-help sections in our book stores are dominated by survival guides. One social commentator surveyed the literature in this area and found survival guides or manuals for virtually every group in our population, observing that the rhetoric of crisis now pervades discussion of virtually every topic from race relations, to prison reform, to mass culture, to fiscal management and to everyday life management.

The pressure on government in the last few years has been to address the Canadian concern about survival in one of two ways—by adopting short-term remedies associated with job creation, or by engaging the Canadian public in a long-term strategy. As we all know, from the point-of-view of both fiscal management and industry, it was the latter strategy that was adopted. For a society grown accustomed to quick fixes, sound bites, and instant cures, longer-range plans and visions are tough choices for such times.

One year ago, our guest today addressed The Empire Club of Canada and offered a strategy to meet the challenges facing industry and employment in an increasingly globalised industrial marketplace. Our guest's message at that time involved the building of an economy and a restoration of confidence by developing a climate for the development of jobs, rather than job creation. This involved by necessity support for technology development in the aerospace industry, the biotechnology industries and the telecommunications industries.

The good news appears to be that Canada is on the threshold of becoming a global leader in the field of technological development and growth. At The Empire Club of Canada, we have heard this message from the Presidents of Sprint, AT&T, Teleglobe (in telecommunications), and from the presidents of our biopharmaceutical and pharmaceutical industries, including the International Chairman of Glaxo, and the President and CEO of Allelix Biopharmaceuticals. The corollary of this message is that if Canada maintains a leadership position in the global technological economy, then we will also have created a climate for long-term job development, which in turn also means that the focus on long-term development may well have been the right one.

It is one thing to come before The Empire Club of Canada and offer a vision and a plan for fiscal management and for job growth. It is quite another to agree to report on the outcome of such visions and plans. Our guest today, in February, 1996 offered his vision and plan for job growth in the new economy. Today, our guest reports to us on the progress of the agenda to place Canada in a competitive position in the global marketplace and the new economy.

The Honourable John Manley was first elected in 1988, was re-elected in 1993 as a Member of Parliament for Ottawa South and was appointed Minister of Industry in November, 1993. Throughout his tenure as Minister of Industry, Mr. Manley has been devoted to the development of a positive climate for entrepreneurs and for the growth of small businesses, to the expansion of markets for jobs through trade, and to the strategic development and construction of Canada's Information Highway.

He has throughout been dedicated to placing Canada and Canadian industry on the road to a successful meeting with the millennium. It has been our privilege to hear his vision; today, Mr. Manley reports on the implementation of that vision and its success.

It gives me great pleasure, therefore, to ask you to join me in welcoming to The Empire Club of Canada, The Honourable John Manley.

John Manley

Thank you for your kind introduction, and thank you, ladies and gentlemen, for this opportunity to speak once again to The Empire Club.

For the past three-and-a-half years as Minister of Industry, I have had the opportunity to observe first hand one of the most remarkable transformations of Canada's economy and society in our history. This transformation is taking place as Canada enters a new era of global markets and an economy driven by knowledge. Literally overnight, new products and processes create new market opportunities. Companies innovate at such a fast pace that in some sectors the leading-edge product of five years ago is today's out-moded piece of junk.

Canadians have proven themselves to be remarkably resilient in coping with this pace of change. I don't want to downplay the hardships of the transition. The job markets shift and many are left without the right skills for the new economy. The speed of change takes its toll on our family lives and our sense of security and well-being. But

Canadians have also seized the opportunities of this new economy. Canada has seen a rapid increase in the number of small businesses and a growing spirit of entrepreneurship. We've seen a change in the efficiency and productivity of our businesses.

We are entering an information era in which, as never before, jobs and growth will depend upon the quality of our communications infrastructure, on the strength of our education system, on our ability to build partnerships that span the country and reach out to the world, and on our ability to innovate.

Today I want to talk about Canada's strength in information technologies and telecommunications, and particularly my view of the new World Trade Agreement on telecom and the current prospects for satellite TV in Canada.

Canadians have risen to the challenge created by new technologies and new corporate structures. Among the G7 we have the best communications infrastructure overall and are among the leaders in terms of penetration, quality, market development and rates. Consider:

- Over 98 per cent of Canadian households have at least one telephone.
- Over 95 per cent of Canadian households have access to cable TV.
- Cellular services are available to 90 per cent of Canadians.
- We have several coast-to-coast fibre optic networks.
- We have a national broadband research network.

In the process of building the world's best communications infrastructure, we have built industries that sell knowledge-based goods and services to a global economy. Consider Canada's strong information and communications technology industries:

- They export to over 90 countries and employ some 400,000 Canadians.

- In 1995 they had revenues of $60 billion and accounted for 6.8 per cent of our GDP.
- The sector is a leader in research and development accounting for one-third of total industrial R&D in Canada.

The potential for jobs and growth in our information and communications technology industries is enormous. Over the last five years employment growth in this sector has averaged 11.2 per cent per year compared to a national average in all sectors of 2.6 per cent. Half the world's population—over three billion people—have yet to make their first phone call. Therefore, a huge market for communication equipment and services is waiting to be tapped. Canadians are going to sell their expertise and their products to the world. Telecommunications holds an opportunity for Canada to create new jobs and to sustain economic growth for the century to come.

But we're not going to get there by resting on our laurels. No industry changes faster than information technology and telecommunications. Two factors have helped accelerate the change.

First of all, prices for information technology and communications equipment have dropped while computing power has increased dramatically. As the Economist magazine pointed out, if cars and their prices had developed at the same pace as micro processors over the past two decades a typical car would now cost less than five dollars and get 250,000 miles to the gallon.

Second, information can now be digitised into a sequence of zeros and ones that can be transmitted across many media. And those media must now compete with one another for customers that they once had captive to their own technology.

In the past, cable technology was very good at relaying large amounts of information such as a TV image. But it could not transmit information both ways, like a telephone does. Telephones, on the other hand, were good at two-way communication but couldn't transmit a picture.

That's all changing. And it's happening right now:

- Bell Canada has asked permission from the CRTC to test a proposed broad-band service in London, Ontario, and Repentigny, Quebec. The phone company wants to offer broadcast and multimedia services to up to 3,500 households.
- Groupe Videotron Ltee has a cable network that reaches 80 per cent of Quebec and 145,000 subscribers in Alberta. In co-operation with a wireless phone company, Microcell, it's about to conduct the first tests in Canada to combine wireless telephone with cable TV.
- The cable industry is now introducing a new service utilising cable-modem technology to plug subscribers into the Internet. The result is higher speeds and the ability to access phone, television, and Internet services at the same time.

As these companies race to put more services at the fingertips of their customers, the ability of the technology to deliver different kinds of services races ahead as well.

- Medical doctors in small towns use technology to share ECGs and ultrasound images with their colleagues in the sophisticated medical centres of big cities.
- Our children use computers and modems to explore the libraries of the world's universities and take virtual field trips to museums around the globe.
- Small businesses in one province create jobs and growth by downloading information from satellites, and interpreting it so that farmers in another province can get a better idea about soil conditions.

Yesterday we marvelled at how technology gave us these opportunities. By tomorrow, they will already have become commonplace. We'll use them as easily as we use a telephone today.

We are well down the road in a new technology phenomenon that some call the "Information Highway," others the "Network Economy." Early in the mandate, the government of Canada determined that Canadians must remain in the forefront of the new technology. We formed a high-level Information Highway Advisory Council and proceeded to establish a framework for Canadian achievement.

We made the Information Highway an integral part of the Jobs and Growth Agenda. We focused on three key objectives: ensure that the Information Highway created jobs through innovation and investment; ensure it reinforced Canadian sovereignty and cultural identity; and ensure all Canadians would have access to essential communications services at reasonable cost.

At the heart of this strategy was our belief in the power of a competitive marketplace. Competition leads to consumer choice. It leads to innovation. It leads to success in the markets of the world and therefore to jobs for Canadians. Competition will prevail among companies in the same technology, like Bell and Sprint Canada; and Microcell and Bell Mobility. Different technologies—cable, wireless, telephone and satellite—will also compete to offer the same services.

Over the past three-and-a-half years, my job has been to remove the barriers and the constraints that restricted that competition. We have moved from a highly regulated environment to one in which competition can flourish. We have overhauled our telecommunications policy until, today, it is one of the most competition-driven in the world.

We've seen the market open for long-distance telephony and rates have fallen. Soon new competitors will also compete for your local calls. Not long after that you'll be able to pick and choose what services you want from the supplier you want.

Moving to a competitive telecommunications market is a great deal more complex than in most other industries. The incumbents start with immense advantages which can be used to frustrate the establishment of competitors, unless appropriate regulatory action is taken. On the other hand, if the incumbents are unduly disadvantaged, then Canadian firms will find their ability to grow from a domestic base into new markets is impeded. In addition, the introduction of competition cannot be allowed to compromise the delivery of essential telecommunications services to Canadians.

The transformation to a truly competitive telecommunications market in Canada is not complete, but with a wide range of new service providers entering the market, and several important CRTC decisions expected in the coming months, we should soon be there.

Some weeks ago John McLennan, President of Bell Canada, expressed his frustration over the regulatory constraints that still apply to his company. I would be surprised if a fierce competitor like John was not eager to compete. I too look forward to a day when the regulator's work will be largely completed and there will be full competition for all telecommunications services in the marketplace. But I want competition to endure, not to appear in an instant and then disappear as the big players reassert their dominance. Nor will I readily or easily concede our market to the giants from the U.S., Europe and Asia.

But we are moving rapidly! We've opened the market for new wireless technologies. We have issued four licences to companies that will supply personal communications services or PCS. These companies will be able to offer services, such as Internet access and paging, that are not available through existing cellular phone technology. Last November, Microcell launched its Fido service in the Montreal area making it the first company in Canada to offer PCS under these licences.

We have also issued new licences for Local Multipoint Communication Systems. LMCS will now provide competition to cable, telephone and satellite distribution systems. The applicants propose to invest over a billion dollars and create up to 8,000 new jobs over the next five years in the wireless industry. The CRTC is proceeding with licences for a related technology called MMDS.

Wireless technologies contribute to Canada's new economy infrastructure, provide new competition to bring prices down, and encourage innovation and new products and services. We lead the pack in the global race to get these technologies up and running. We issued our LMCS licenses before the United States completed their licensing process. Canadian companies will have products and services to export when other nations are ready to create their LMCS and PCS networks. We are ahead of the U.S. in licensing Digital Radio Broadcasting—DRB which offers broadcasters the opportunity to provide programming with CD quality. We're ahead of the world in connecting all of our schools to the Internet. And by the year 2000, we will have connected all communities of more than 400 people to the Internet through our Community Access Program.

And now, we're ready to use our advantages and create jobs and growth in Canada by marketing products and services to the world. Three weeks ago, Canada and our trading partners made a major breakthrough in the global trade of telecommunications with the signing of the World Trade Organization Agreement on Basic Telecommunications Services.

Canada gained a more secure access to foreign markets. The Agreement establishes a clear set of rules in a sector which, up to now, has had none. The WTO dispute settlement process provides safeguards to ensure countries respect their commitments.

In trade agreements, like the rest of life, you rarely get something for nothing. What did Canada have to put on the table to receive this access to the markets of the world? A more competitive environment here at home. Teleglobe Canada's monopoly on overseas traffic will expire on October 1, 1998 and Teleglobe's ownership restrictions will end. Foreign ownership will continue to be unrestricted in the resale sector and submarine cable landings in Canada will soon be opened as well. In the year 2000, Telesat's monopoly on fixed satellite services will end. Traffic routing rules for all international services and all satellite services must be removed by 2000. Ladies and gentlemen, I believe this is a very reasonable price to pay in return for the world of opportunity opened up to a dynamic Canadian telecommunications industry.

Canada pushed hard for a successful conclusion to the WTO negotiations. We played an important role: by showing the advantages of developing a competitive marketplace; by demonstrating the importance of an effective regulatory framework; and by working with like-minded delegations to resolve the myriad of technical issues that arise in such complex negotiations.

In the end our most important contribution was to demonstrate the importance of looking at the offers on the table as a package. For example, the Canadian offer combined very high commitments with respect to competition and an effective regulatory framework. Furthermore, while Canada does require Canadian control of its telecommunications companies, the rules do permit substantial foreign participation with the result that current foreign investment and participation in our telecommunications industry is higher than in virtually all other countries.

Taken as a whole, the accord represents an enormous achievement which will create opportunities for

Canadians. This success follows on the heels of the Information Technology Agreement signed in Singapore last December which will eliminate tariffs on information technology equipment.

The combined effects of these agreements will spur investment around the world, increasing opportunities for Canadian telecommunications service providers and equipment manufacturers.

But there was one important technology that was left out of the WTO agreement on telecommunications—Direct Broadcast Satellites or DBS. DBS represents the latest generation of communications satellite technology, and this is the second topic on which I would like to offer some thoughts.

In Canada, we now use communications satellites for telephone network applications; point-to-point communications; data broadcasts; business television; mobile communications; and satellite personal communications. As well we use them for TV and radio distribution. Satellites send signals to cable systems and they also distribute TV network programmes to your local TV stations.

The new DBS technology will deliver digital television and audio services directly to your home using a small receiving dish. In Canada, this is called Direct to Home satellite TV, or DTH. Three factors come into play in providing DTH—three pieces of a puzzle. You need a market for the service; you need a broadcaster who will distribute the service; and you need a satellite.

We are reasonably sure that we have the first piece: the market for the service. Service providers have estimated that there is a potential DTH market of two million Canadian homes. Many of those homes have not waited for the other two pieces to be put in place. Media estimates of the number of households now using dishes to pull unauthorised signals from American satellites range from 200,000 to 300,000. This is the so-called grey market, where people subscribe to an American service, using an American address to do it.

There is also a black market in Canada. This is quite a different thing. It involves tampering with the equipment so that signals can be picked up without paying for them. As you may have read in the media, there have been RCMP investigations into this activity.

Some people argue that the grey and black markets don't really matter. But if they become large enough, it could have a significant impact on Canadian broadcasters who have invested in the rights to distribute the same programming in Canada, and in the extreme, it undermines our ability to maintain an independent, Canadian, broadcasting system. It affects jobs and growth in the Canadian production and satellite industries.

Industry Canada put out a brochure last November so that consumers are aware of the risks of buying equipment and services on the grey or black markets. Consumers should know that these services can be cut off at anytime, making the equipment useless.

But we believe the best way to address the grey market in Canada is to get competitive Canadian DTH services up and running as soon as possible. That requires putting the other two pieces of the puzzle in place.

We've got the second piece: the distributors who will sign up subscribers for their broadcasting services. Five broadcasters are now licensed. They are anxious to get going. Several have been conducting trials and two of them have indicated that they hope to be on the air with limited services by the end of the month.

There will be competition for the DTH services and consumers will have a choice. But as a government, we had to go to extraordinary measures to ensure that there would be competition for this service.

In 1983, supported strongly by Canadian broadcasters, Canada secured six DBS orbital positions from the

International Telecommunication Union (ITU). Using the technology available at that time all six orbital positions would have been required to provide one full DBS service throughout Canada. Modern technology permits a satellite located in at least three of these slots to be used to provide full Canada coverage, together with coverage of the U.S. The other slots are all capable of covering large parts of North America.

Traditionally the CRTC has responded to new technologies with the premise that any broadcasting undertaking that would have a significant impact on the Canadian broadcasting system should apply for a license. In exchange for the licence, the broadcasters usually make commitments that will benefit the communities they intend to serve. Those commitments might include, for example, a promise to invest in Canadian programme production.

In March 1994, the CRTC reversed its usual position. Instead of licensing DTH, the Commission exempted DTH companies from the need for a broadcasting licence, provided they met certain conditions.

Exemptions are usually used to cut down on regulation and red tape. They're used for such things as closed-circuit video programmes in hotels and low-power radio services. But this Exemption Order set only minimal obligations for DTH undertakings. For example, there were no requirements for financial contributions for Canadian programme production. As well, the Order required exclusive use of Canadian satellite facilities for the Canadian DTH market. Only one company, ExpressVu, could meet this test. In short, the Order would have eliminated competition among broadcasters of DTH.

This became a test of the government of Canada's will to ensure that the Information Highway would be built upon open markets and fair competition. It tested our resolve in the philosophy that competition creates innovation, jobs and growth.

In September 1994, my colleague, The Honourable Michel Dupuy, the Minister of Canadian Heritage and I announced we would review DTH policy. We commissioned a Review Panel, consisting of three distinguished former public servants. The Review Panel received 500 submissions. In April 1995, they recommended a policy framework and licensing regime based on competition, not monopoly. The government issued orders based on this report in July 1995.

Currently the CRTC has issued five licenses for satellite TV services. These include: ExpressVu and Power DirecTV licensed in December 1995; StarChoice licensed in August 1996; HomeStar licensed in September 1996; and, last week the CRTC granted AlphaStar Canada Inc. a licence. I am told that this service should be available very soon.

Unlike the other DTH licensees, AlphaStar initially will use an American satellite owned and operated by AT&T and will migrate its service to a Canadian satellite once space becomes available. I am announcing today that in order to accelerate the introduction of competitive DTH service in Canada, I will authorise AlphaStar Canada's application to use an AT&T fixed satellite temporarily until Canadian satellite capacity becomes available.

Which brings us to the third piece of the puzzle: the satellite itself. Canada has always prided itself in the quality of its satellite technology. The launch of Alouette in 1962 made Canada the world's third space-faring nation. In fact, Canada had the first domestic geostationary communication satellite system in the world—Anik A. Since then Canadian satellite technology has been instrumental in keeping Canadians communicating with one another. It has provided us with knowledge-intensive jobs in a global marketplace for both communications and earth observation satellites.

Our telecommunications industry must keep abreast of evolving communication technology. DBS satellites are the most sophisticated and most powerful currently available. Canada does not yet have one. If I were to draw an analogy with the computer market, I would describe DBS as a Pentium computer. Canada's Anik-E satellites are the equivalent of a 486. Since one of the Aniks began to malfunction as a result of a space storm last summer, Canada's satellite communications have been running on the equivalent of a 386.

A DBS satellite is a very expensive bird, costing at least $300 million each. But one DBS satellite can provide over 200 television channels which should be sufficient to meet the immediate needs of Canadian broadcasters. At two million potential DTH customers, the Canadian market is on the borderline of being able to support DBS. Access to a broader North American market would obviously make a Canadian DBS more profitable.

This was a route pursued by Telesat last summer when it struck an alliance with American broadcasters who would use a U.S.-built Canadian-owned satellite to reach their own domestic market. I believe that this arrangement would have benefitted consumers in both Canada and the United States, providing Canada's first DBS capacity and increased DBS competition in the U.S.

However, the FCC rejected the licence application of the American partners and indicated that they would link any further discussions to an examination of Canada's broadcasting and cultural policies. This is something we were not and are not prepared to accept. We have indicated that we are prepared to negotiate reciprocity with the U.S. in respect of DBS satellite facilities. However, we believe that Canadian content must have an important place in the Canadian broadcast system.

Last July, in the aftermath of the FCC refusal to license Telesat's American partners, I announced that we would pursue a made-in-Canada DBS/DTH policy. In November, we invited applications from companies interested in operating a DBS to serve Canada's broadcasting needs. Last Friday, applications closed and we received one proposal from Telesat in co-operation with Spar Aerospace. They have proposed to build and operate a Canadian satellite in a Canadian orbital slot. This application is currently being reviewed by my department and I hope to be able to announce a decision by the end of the month so that a Canadian DBS satellite could be launched next year.

Personally, I'm disappointed that we don't have a Canadian DTH service up and running today. I firmly believe that, as a government, we have taken all possible steps to make a competitive DTH service happen. But we have stopped short of allowing American firms access to our market when Canadian firms cannot have access to theirs.

Why have we insisted on a made-in-Canada solution? Why don't we simply allow the U.S. satellite services to broadcast to Canadian homes? It's more than ensuring that Canada has four well-paved on ramps to the Information Highway: satellite in addition to telephony, cable and wireless. It's also about maintaining a vibrant Canadian culture, and being able to distribute it to Canadian homes. It was a Canadian, Marshall McLuhan, who said that the medium is the message. Without a Canadian DBS broadcasting direct-to-home programming made in Canada, a generation of Canadians will grow up with a whole new medium without any Canadian message.

But our satellite policy is also about keeping alive an industry that has been a source of pride and a provider of high-quality, knowledge-intensive jobs. We want to build our own satellite infrastructure and develop highly skilled workers. We want to make it attractive to keep those workers in Canada. We want them to be able to market Canadian services to the world.

Ladles and gentlemen, the satellite industry in Canada, together with the rest of the information and communications industries, provides a powerhouse that is going to drive Canada's economy in the 21st century. As the world moves into the Information Age, Canada's economic growth will increasingly depend on our ability to develop and apply the latest in information and communications technologies. We believe that a truly competitive market will lead to the kind of entrepreneurship and innovation that Canada needs to stay ahead in the accelerating race for new and better technology.

I know that we are not going to move into the information age without some adjustments. But change is always accompanied by unprecedented opportunities for those with the foresight, creativity and skills to seize the moment. I am confident that Canadians working together can meet this challenge.

Thank you.

The appreciation of the meeting was expressed by Bill Laidlaw, Director, Government Relations, Glaxo Wellcome Inc. and a Director, The Empire Club of Canada.

March 11, 1997

Her Excellency, Benita Ferrero-Waldner

State Secretary for Foreign Affairs for Austria

SECURITY AND INTEGRATION IN EUROPE—AN AUSTRIAN VIEW

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Diana Chant, Partner, Price Waterhouse and Treasurer, The Empire Club of Canada; Dr. Wolfgang Petritsch, Director, International Relations, City of Vienna; Robert Noble, Director for Central Europe, Department of Foreign Affairs and International Trade, Government of Canada; Alan Sullivan, President, Canadian Institute of International Affairs; Walter Lichem, Austrian Ambassador to Canada; Ed Badovinac, Professor, Dept. of Telecommunications, George Brown College and a Director, The Empire Club of Canada; The Rev. Canon John Erb, Rector, St. Michael and All Angels Church; Walter Nettig, President, Vienna Chamber of Commerce and Industry and Special Envoy of the Mayor of Vienna for International Economic Affairs; and Frank Stronach, Austrian Consul General in Toronto.

Introduction by Julie Hannaford

For the European Union, the construction of a common foreign and security policy, together with a common defence policy, represents one of the most significant challenges to the constituencies represented by the Union as it approaches the millennium. Nothing could have provided a more stark example of the necessity for the development of a means for responding to international crises than the events in Bosnia. The way in which the European Union, through its intergovernmental conference, develops mechanisms for response rather than an environment for analysis may well become a template for other intergovernmental organisations to manage the need for acting in concert, as global trade and communications inevitably give rise to various crises that require a concerted and integrated response.

When it became a fully fledged member of the European Union in 1995, Austria committed to participating in the architecture of European security.

Our guest today, Dr. Benita Ferrero-Waldner, honours The Empire Club of Canada by offering Austria's view on the subject of integration and security in Europe. Our guest, however, distinguishes The Empire Club of Canada's podium not only as State Secretary of Foreign Affairs, but also as someone who shall take her place in history as one of the lead architects shaping the design for European security in the 21st century. In 1998, Austria shall assume the presidency of the European Union. Dr. Waldner is charged with the preparation of Austria and Austrian policy for the assumption of this critical role.

In its 93-year history, The Empire Club of Canada has been privileged to have been addressed by statesmen and women of national and international reputation. What we learn from their biographies and addresses is that the three key determinants to statesmanship must necessarily be the intellectual strength derived from a commitment to learning; the courage to lead derived from the application of learning to the business and political world; and finally, the fortitude of perspective, derived from a commitment to the experience of being a leader in the fields of business, politics, and learning. In all three respects, Dr. Waldner excels.

At the University of Salzburg, Dr. Waldner studied law, obtaining the degree of Dr. iuris in 1970. In the business world, Dr. Waldner was the European Sales Director for P. Kaufman Inc. in New York, and the Chief Management Assistant for Gerns and Gahler, Freilassing in Germany. In the field of international representation and foreign affairs, Dr. Waldner represented Austria as First Secretary in Senegal, and in Paris as Counsellor for Economic Affairs and as First Counsellor and Chargé d'Affaires. In New York, at the United Nations Secretariat, Dr. Waldner occupied the position of Chief of Protocol. In 1995, Dr. Waldner was appointed State

Secretary for Foreign Affairs. Dr. Waldner's commitment to the three virtues underlying statesmanship (learning, the application of learning to experience, and the wisdom derived from perspective) present themselves not only from her biography, but from the commitment that Dr. Waldner brings today to Austria's leadership in the architecture of European foreign policy.

Please join me in welcoming today to The Empire Club of Canada, the State Secretary for Foreign Affairs for Austria, Dr. Benita Ferrero-Waldner.

Benita Ferrero-Waldner

Let me first of all thank the President of The Empire Club of Canada for the invitation and the arrangements for today. I am greatly honoured to address this august assembly on a subject that I believe is of relevance not only to Europe but also to our transatlantic partners. I also appreciate the presence of my colleague and friend, Mr. Walter Nettig, Special Representative of the Mayor of Vienna and President of the Chamber of Commerce and Industry of Vienna.

As the Cold War ended, the hope for Europe was for a Europe whole and free, all its people freed from conflict and division, guaranteed their human rights and their economies rebuilt from the ruins of communism to allow everyone a life in decency, dignity and prosperity, however modest.

As Europe presents itself today, we have come from a high-risk situation with great stability to a low-risk situation with less stability. The high hopes of the period immediately following the collapse of communism in Europe and the end of the Cold War have not always been fulfilled. Many new threats to European security have appeared. Ghosts of the past have haunted Europe again causing the bloodiest and most cruel war Europe has had to endure since the end of World War II. Aggressive nationalism, racial hatred and ethnic and religious intolerance are some of the major causes for the Bosnian tragedy and similar crises might erupt again in some parts of Eastern Europe. Present events in Albania which we are following with great concern demonstrate once again the results of decades of suppression of individual liberty, economic mismanagement, lack of opportunity and general disregard for human dignity.

After this rather bleak description of the situation in some parts of Europe, I come back, however, to my first thesis which is that Europe, despite all the problems and dangers, has a realistic historic chance to build lasting peace and stability in a foreseeable future for all its people, based upon democracy, the respect for human rights, the rule of law and free-market economy.

Austria sees the main challenge in the field of security in the setting up of effective European crisis-management structures. As both an EU member and an observer in WEU, Austria concentrates her efforts in both forums on improving the mechanisms allowing WEU to carry out crisis-management tasks initiated by the EU.

As a member of the European Union, Austria has accepted without restriction the political and economic aims of the Maastricht Treaty which established the European Union in 1992. We are therefore not only observing the shaping of Europe's future which in view of our geo-strategic position in the centre of Europe is of immediate relevance to our own security, but we are actively participating. It is the basic principle of Austria's European policy—enshrined in the programme of the present government which is, as you know a coalition government between the Christian-Democratic and the Social-Democratic Parties—to participate actively and in good faith in all matters of European integration and co-operation. More than 60 per cent of the Austrian population that voted "yes" to Austria's accession to the European Union in 1994, accepting all the aims and purposes of the Treaty, wanted Austria to be an active and equal partner.

There are many reasons why Austria, which for centuries has been situated at the critical crossroads between east and west and has been accustomed to think in transnational terms, has no other choice but to belong to the core of European integration. I already mentioned our geographical position which places us right in the centre of today's security concerns. The distance from Vienna to the western border of Ukraine or to Sarajevo is shorter than to Zurich. When war first broke out between the armed forces of the old Yugoslavia and Slovenia which had just declared its independence, Yugoslav warplanes came within several hundred yards of Austria's southern border and one could observe the fighting from the border with the naked eye. It is in our own interest to be a part of the European security structure, to participate actively and with a sense of solidarity in the integration process and to be of service to the international community for the benefit of peace and stability.

A country like Austria can only profit from being an integral part of a strong and dynamic European Union. This is certainly true from an economic point of view but it is also true in a political sense.

It is only logical that Austria belongs to those member states of the European Union that advocate strongly further integrative steps in the course of the ongoing Intergovernmental Conference which was convened last year. It has as its primary goal to make the necessary political, institutional and technical adaptations of the Union as laid down in the Maastricht Treaty in order to prepare for the coming enlargement. As a matter of fact this conference which is hoped to end before summer, is necessary in order to create the institutional environment conducive to an enlarged EU.

A positive attitude towards the enlargement of the European Union by the states of Central and Eastern Europe is another principle of contemporary Austrian foreign policy. We support the accession of those states because this in our view not only makes sense economically but it is also an important contribution to peace and stability in Europe. We do, however, not underestimate the problems connected with such expansion.

It is necessary for the 15 member states themselves to first get their own house in order before new members can be admitted. Issues like freedom of movement of persons, the common agricultural policy of the EU, the subject of financing the organisation as a whole and more particularly its regional funds need to be discussed and solutions found first among the present members of the Union. This does not, however, change our basic attitude that enlargement should take place. I am optimistic that at least some of the candidates can be admitted into the European Union within a foreseeable future in a first round. For Austria which will assume the presidency of the Council of the Union in the second half of next year as the first of the three new member States the enlargement will certainly represent one of the priorities.

Ladies and gentlemen, the supreme goal of any foreign policy is to create security, preserve peace and where necessary to restore peace. A European security system, like any other regional system designed for the same purposes, must be defensive by nature but must also have the capacity to act forcefully when the circumstances warrant. This is one of the lessons to be drawn from the Bosnian tragedy. I am certain that had an efficient European security system already been in place, a solution could have been found much earlier. Europe must, better sooner than later, equip itself with the necessary tools to settle disputes once hostilities have broken out.

The European security structures, which will eventually lead to a comprehensive security system equipped to cope with the challenges I have just mentioned, are presently going through a phase of fundamental change. At the core of the system are the three organisations—EU, Western European Union (WEU) and

NATO—operating in a reciprocal triangular relationship. The Berlin summit of NATO in June of 1996 has brought the EU, WEU and NATO closer together, particularly by stressing the developments of the European security and defence identity within the alliance. Since NATO views the co-operation with WEU in European-led crisis management as an integral part of this identity, this will in time also require political co-operation between the EU and NATO.

Other European organisations will continue to play important roles. OSCE, as we can see in the case of Albania, is able to make a meaningful contribution to resolve conflicts before hostilities actually break out. Its strength lies in conflict prevention and dispute solution. I would also mention that the Council of Europe, an organisation where Canada has acquired observer status only recently, also has to play an important role in setting up what is generally called "democratic security" in all of Europe.

Because time is limited, let me just state some basic principles that I believe will govern a European security system.

First, for some time to come, several international organisations and institutions will be responsible for safeguarding European security. This is certainly useful and allows for a high degree of flexibility because it permits states to determine their own pace according to their own necessities. In a somewhat longer perspective and as enlargement of the various organisations progresses, interaction between those organisations will have to intensify. In the long run stability will depend on European states basically belonging to the same organisations since varied membership in the different organisations lead to imbalances in the decision-making processes.

Second, against the background of what I just said, a merging of EU and WEU must eventually be discussed. It would be unrealistic to think that such a decision might be taken already at the actual IGC. I, however, expect consensus at the IGC that the "Peterberg operations" (so called after the town near Bonn in Germany where the decision was made by the Ministers of Foreign Affairs and of Defence in 1992) which involve measures to preserve and restore peace, humanitarian actions and rescue and relief operations will be incorporated into the Union treaty. This is also Austria's position. It will give the EU the option to ask WEU to carry out operations which might also involve the deployment of military forces which in turn might be made available by NATO according to a decision made by the NATO Council in 1996 in Berlin. The EU would thus become a powerful political instrument to preserve and if necessary restore peace in the region.

Third, the political role of the European Union must be increased and developed. The provisions of the Maastricht Treaty on common foreign and security policy were without any doubt a big step forward. But the Union still remains relatively powerless when it comes to play a political role in the international arena. Europe today is an economic giant but a political lightweight. The question is only partially one of improved structures and procedures. Of course, it will be necessary in the course of the IGC as such issues are being discussed to make certain decisions in this respect and there are some very useful proposals on the table. But what really counts in the end is the political will of the member states, particularly of the larger states, to come to a common position on a given issue and then stick to what has been agreed upon. In this respect I would just add that Austria is very much in favour of allowing majority decisions if there are no military implications of a given decision in order to facilitate progress in the CFSP.

Fourth, the enlargement of NATO will be a contribution to peace and stability in Europe. As a non-member we think that the enlargement process falls within the sovereign decision of the organisation, its member states and the candidate states. We are nonetheless very much aware that an expansion of NATO will directly affect Austria's own geopolitical environment.

The summit meeting in Madrid of heads of states and/or of governments of NATO countries will officially launch the process of enlargement and will review the progress in establishing a "European Security and Defence Identity within the Alliance." This refers to the question of "Combined Joint Task Forces," integration of France and Spain into the integrated military command and will decide on key elements of the future relationship between NATO and France and Ukraine.

If this "package-deal," also paraphrased as the "new NATO," becomes reality, it will represent a decisive step on the way to a comprehensive order of peace and stability in Europe.

The fact that NATO is being shaped into something fundamentally new is of the utmost importance also for Austria. The key elements of this "New NATO" are the commitment to partnership, to take on new tasks (e.g. IFOR, "Combined Joint Tasks Forces") and to a European Security and Defence Identity. The success of IFOR is a milestone in these developments. On January 30, 1997 the Austrian Parliament agreed to the request of the federal government that Austria will continue to be represented in the framework of IFOR.

The enhancement of the Partnership for Peace of which Austria is a member can add value to these positive developments and is therefore supported by Austria. Austria sees the proposed "Atlantic Partnership Council" (APC) as an opportunity to strengthen stability in Europe and therefore welcomes the recent proposal of NATO's International Staff as it builds on basic principles of transparency, inclusiveness and self-differentiation.

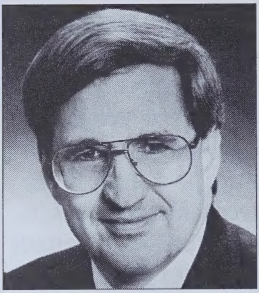
As far as Austria's future security policy is concerned, the present federal government decided that it will present during the first quarter of 1998 at the latest a report to the Austrian Parliament on all forward-leading options in the field of security policy as well as the necessary measures to be taken. We believe that the picture will be much clearer after the NATO summit in Madrid in July this year. We will have named the countries eligible for accession to NATO, among them most likely one or more neighbouring states of Austria. Besides the question will also have to be posed in this context, if the first round of enlargement will be followed by a second one. Therefore, Austria will have to discuss openly and thoroughly all options. Possible full membership in WEU is already one of the options mentioned in the government agreement and in view of the transformation of NATO into a "new NATO," and the membership of neighbouring countries, this option must also be considered.

Fifth and last, I would like to point out that reform of NATO structures and the enlargement of the organisation are not to be isolated from the overall picture of European security. Thus there is a close relationship between NATO expansion, the revision of NATO's internal structures, the pan-European co-operation within the framework of the OSCE, the establishment of a new partnership with Russia and Ukraine as well as the revision of the Treaty on Conventional Forces in Europe. In particular the question of future relations with Russia is of the utmost importance for European security. Although there is no formal link between enlargement of NATO and the conclusion of some sort of arrangement with Russia and there can of course be no veto by any third country against the autonomous decisions of the organisations, the two are closely linked in political reality. Russia and Ukraine should be able to participate in the new stability that we aim to create in Europe. We therefore welcome the ongoing negotiations between NATO and the Russian federation to come to some sort of understanding, in a legally binding or any other satisfactory form.

Contrary to our eastern neighbour the question for Austria is not to "return to Europe." We have never left it. The question for us is to participate fully and as an equal partner in all decisions concerning Europe's future. We now must secure what we have achieved and progress in those areas where we still experience serious problems. We are ready to assume responsibility and I believe the majority of the people see the need to take bold measures to better the destiny of our own countrymen and of all Europeans.

Thank you very much.

The appreciation of the meeting was expressed by Diana Chant, Partner, Price Waterhouse and Treasurer, The Empire Club of Canada.



March 13, 1997

David MacKinnon

President and CEO, Ontario Hospital Association

CONDITION CRITICAL: RESTRUCTURING HEALTH CARE

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Ed Badovinac, Professor, Dept. of Telecommunications, George Brown College and a Director, The Empire Club of Canada; Dr. Diane Bridges, Director, Pastoral Care, Peel Memorial Hospital; Paul Gould, Chair, Ontario Health Providers Alliance (OHPA); Sharon Doyle, Assistant Editor, Maclean's Magazine; Ronald Goodall, FCA, Partner, Goodall & Peacock and a Past President, The Empire Club of Canada; Bob Sanders, Board Member and Treasurer, Ontario Hospital Association (OHA); Rino Stradiotto, Partner, Borden & Elliot, Head of Health Law Group and Lead Counsel for HIROC; Douglas Todgham, Vice-President, The Canadian Institute for Advanced Research, and Third Vice-President, The Empire Club of Canada; Kamini Milnes, McMaster University Student at Sunnybrook Health Science Centre; Dennis Bryant, President, MEDEC; David Pattenden, President, Ontario Medical Association; and Rob Stansfield, Senior Vice-President, Greater Toronto Commercial Banking, CIBC.

Introduction by Julie Hannaford

There is a social theory that has evolved out of the proposition that an organisation or a society can cope with only a finite amount of change. Once a society or an organisation is confronted with too many changes, the organisation or society stops responding to change. The social danger created by a society's failure to respond to change arises because a society fatigued by change becomes a passive observer, unable to respond to a crisis associated with change, or adapt to developments evolving out of change.

The best prevention against a passive society is the public forum, for it serves as a means of signalling change whether in the form of crisis or development in society, and through the preservation of debate promotes participation over observation.

Over the last year, The Empire Club of Canada has offered its podium to those leaders in the fields of telecommunications, microtechnology, banking and finance, and biotechnology. The focus of the addresses to date has been how the profound changes in each industry have required essentially a deconstruction of traditional understandings about how business is conducted and services delivered in each of these fields.

Today, David MacKinnon, as President of the Ontario Hospital Association, addresses the issues and challenges within an industry on the threshold of profound deconstruction and reconstruction.

The Health Services Restructuring Commission, established by the Ontario Legislature in April, 1996 had conferred upon it the authority to restructure hospitals in Ontario and to make recommendations to the Minister of Health on restructuring other elements of the health-services system. The Commission outlined its vision in January, 1997, and its first report and recommendations affecting Toronto was delivered on March 6, 1997. The report contemplated closures, mergers, and reorganisations, foreshadowing a dramatic, and multi-tiered reorganisation of the means and facilities of health-care services throughout Ontario. The Commission has effectively placed Ontario on notice that over the next four years, the delivery of health-care services must be reconfigured in communities.

In Ontario, the hospital has historically been defined by something greater than a building which was the repository of illness. Instead, the hospital has come to be understood as the structure that houses a health-care community, including not only patients and those who treat them, but educators, students, financial managers and organisational experts. For many, the hospital operates not only as an extension of a community but also as the symbol of the existence of community within society.

David MacKinnon addresses The Empire Club of Canada today in response to the policy and vision that has evolved for health care to date. He brings to his remarks, as President and Chief Executive Officer of the Ontario Hospital Association, more than 25 years of government and business experience in the fields of planning, business development, research, and public affairs. As President and Chief Executive Officer of the Ontario Development Corporation, David led initiatives in provincial industrial development.

David chaired the Central Agencies Task Force of the Tomorrow Project, which involved a review of the linkages between central agencies and ministries, as well as reviews of management issues in six ministries, including the Ministry of Health.

He has served on the boards of the Ontario Centre for Environmental Technology Advancement, Allelix, and the Association of Provincial Research Organizations. He has studied arts at Dalhousie, business at York, and management at Harvard, Oxford and the European Institute of Business Administration.

There are 215 public hospitals in Ontario and each of them are members of the Ontario Hospital Association. None of the Ontario Hospital Association's 215 members will be untouched by the changes that the Health Services Restructuring Commission has signalled. Few if any citizens of Ontario will be untouched by the changes in the way health-care services are delivered in the next 10 to 20 years.

We are therefore privileged to have David MacKinnon as the representative of Ontario's hospitals offer the benefit of his experience and understanding of the business of health-care delivery to our audience today. The Health Services Restructuring Commission has provided Ontario with a vision for health care in the 21st century. David MacKinnon has a response to that vision.

Please welcome David MacKinnon to The Empire Club of Canada today.

David MacKinnon

I joined the Ontario Hospital Association almost a year ago—a newcomer to health care. I have spent a portion of the intervening months visiting 34 of the 215 public hospitals in Ontario.

This learning experience was wonderful.

- I talked to support staff.
- I reviewed the issues with hospital managers.

- I talked to many patients.
- I have watched a hip replacement.
- I accompanied emergency-room physicians on their shifts.
- I talked with individual groups of doctors about their concerns.
- I've met with many Boards and their volunteer trustees.
- I talked to hospital auxiliaries.
- I have had numerous informative meetings with other health partners and learned much from their perspectives and opinions.

Finally, of course, I have enjoyed a number of discussions with the Minister of Health and have had frequent consultations with his Deputy. I am grateful to all of these people for their help and assistance.

Today I will talk about several things. I will first paint a picture of our hospital system—a picture that has been shaped by my encounters in the course of those visits. Second, I will describe the consequences of current government policies relating to hospitals and health care as they are felt by those who work in the hospital system. Third, I will address some of the problems that appear to be associated with how those policies are developed. Finally, I will make some suggestions about how, by changing direction, we can evoke the best from the system and reduce the level of public concern about health issues.

First, what do we have in our hospital system? We have a system which, measured in outcomes by the nationally recognised Accreditation Council, is excellent. We also have quite a remarkable talent base. From everything I have seen, the management and skill base in Ontario hospitals and the health-care system generally is unique in our public sector—and I have seen a fair bit of the public sector in my previous career.

There is no question that there are problems. In hospitals, we haven't done nearly enough system thinking or system decision making. The teamwork that works so well with physicians, nurses, other health-care professionals and managers on the front lines is deficient with respect to the overall system. The linkages between hospitals and other providers of health care are strong in some areas, weak in others. But these relationships are improving rapidly as a result of a recently formed alliance of 19 major health-provider organisations in the province.

Ontario hospitals have made major progress over the past 10 years. They have accommodated vast clinical and technological change and, with the co-operation of other providers, have emerged as broadly structured health enterprises. Many of them now offer a very wide range of services and programmes that extend far beyond the traditional acute, chronic-care and rehabilitation services.

For most citizens of Ontario our health-care system works well. The fact that 13 million visits to hospitals are made each year confirms that hospitals are, for most people, the retail front end of the health system and people make a conscious choice to use it. This is one of the key strengths of the system. Let's build on this strength. But let's continue to make it better.

Notwithstanding the successes they have achieved in recent years, many people on the front line delivering care are deeply troubled on several fronts.

Many of them feel that they are being unfairly maligned by the government. For many months, government ministers have been characterising hospitals as being top heavy in terms of facilities, management and general administration. The Ontario Hospital Association has been arguing about that, as you might expect. In very general terms the excess capacity Mike Harris points to on his TV commercials is the result of the success of hospitals in doing more with less. This is a success we should celebrate.

Management levels in hospitals have been dramatically reduced over the past decade and our overall cost performance is consistent with other Canadian provinces and comparable, in broad terms, with leading U.S. health-management organisations.

After careful study, including figures which we have shared with government ministers, I can safely say that nearly everything that the government has said about the administrative costs of hospitals and their excessive layers of management is wrong. It is based on out-dated knowledge or very misleading statistics, or both, and this kind of labelling must stop. It helps nobody.

On a broader issue, people in hospitals are worried about the current restructuring process because they know, as does nearly everyone else, that budget cuts should follow from the efforts of the Health Services Restructuring Commission and not precede them. At every level, from support staff to Board Chairs, they know the present process can't work. I am pleased to see recent strong indications that the government has come to understand that point of view. We are also encouraged that the Minister has decided to re-examine the approach in rural and remote areas so that this sequencing problem can be avoided in smaller communities.

At an even more fundamental level, hospital people are worried because they see large transfers of funds from hospitals to other programmes and providers without detailed analysis or evidence about who does what best, or whether the result will be improved service for consumers.

The government intends to take money from hospitals and transfer it to other organisations to provide home care and other kinds of care outside hospitals. All hospital leaders believe—most of them emphatically—that health services should be provided by those best equipped to perform them, at the best price and quality. But we do not see the evidence on which these decisions are based. Without that evidence, making the transfers is unwise.

Even those who support the substance and scale of the transfers have genuine concerns about the lack of planning associated with them. There is no plan to relate the pace of transfers of funds from hospitals to other parts of the system to the actual readiness of other providers to manage them. By readiness, I mean having in place the information systems, management structures, cost-control procedures, human resources and quality assurance mechanisms that are needed.

This mismatch in terms of planning spells serious problems for patients and jeopardises the overall stability and sustainability of the health system. All the problems we have seen in Ontario health care in the past two years could be but a prelude of what is to come if the desirability, scale and practicality issues associated with these transfers are not addressed immediately.

How did we get here? And how did these problems originate? The first problem stems from failure to collect evidence before setting policy. We have reviewed the evidence behind the decision to redirect two thirds of the funds being cut from hospitals to other providers. There is a consensus among those who have studied this matter in detail that no overall conclusion can yet be reached about who does provide the best in quality, price and appropriateness of care. More specific information and research is needed to ensure governments and policy advisers promote sound policy rather than ideology.

A second reason for the difficulties we face is that the government is proceeding with policy directions even when those implementing that policy may know it to be wrong. The Ontario government, for example, has long been aware of the risks of across-the-board cuts—indeed the present Minister of Health repeatedly warned against it—but essentially across-the-board cuts have been made last year and this year anyway, in spite of the fact that we and the government know it can't be done without affecting quality of care and access to care.

A third systemic problem relates to the quality of overall planning for health care. In the last three months three separate and different visions prepared by different organisations within the health-care system have been dropped on my desk with a thud. Some, including the recently released Health Services Restructuring Commission's Vision paper, do not contain significant evidence relating to any of the fundamental issues driving health care. Nevertheless the vision proceeded directly to a series of organisational recommendations for the structure of the industry. We think form should follow function and not the reverse.

A final reason for the problems we face is a propensity to manage big issues of health and well-being using rigid, mechanical formulas.

The world of commerce, while it uses all those techniques for decision making, never relies exclusively on them. Human behaviour is too complex for that. Every mathematical template for health must reflect local conditions, including socio-economic factors and demographics. We must also be prepared for the imponderables of the future, chance occurrences and many other variables.

In summary, we have a system grounded in quality, but with fundamental problems. The question today really is: "Where do we go from here?"

This is a question that cannot easily be answered. But two comments in the weekend press support our position that there are alternative approaches to health planning. Columnist Terence Corcoran of the Globe and Mail wrote last weekend about how restricted the analysis of the Health Services Restructuring Commission is, and how unrealistic the result would be if the same techniques were applied to private industry.

Another relevant comment comes from Monique Jerome Forget, President of the Institute for Research of Public Policy. Commenting upon the recently released report of the National Forum on Health she discusses the myths that currently drive health-care reform in Canada. One of the myths she describes is that provincial health authorities are capable of micro-managing the health-care delivery system to the satisfaction of patients and providers. Policy makers, she says, must transcend this dogma, or we will lose any opportunity for meaningful health-care reform.

If one accepts the views of these commentators—and others like them—where might we go in terms of the future of hospital policy and health-care policy generally?

There is another way!

We can build on the consumer relationships which already exist. We can encourage hospitals to continue their evolution into broadly structured health enterprises because that is what customers are demanding. Hospitals can then build on existing relationships with other providers in the communities and with the consumer base. In this way, capital and physical plant can be redirected within existing institutional boundaries. The result will be a much more incremental and far less destructive process than the present one of reallocating budgets among separate and distinct "silos" within the system.

Other health providers including physicians will then take the same approach. They may form joint ventures and partnerships with hospitals and community groups to become more broadly structured health enterprises and they should be encouraged to do so. Hospitals will support them in their efforts.

We might go even further. These new health enterprises can become the cornerstone of integrated health systems with funding based upon the population served rather than the provider. This is about the only goal on which all serious students of our system seem to be agreed.

We might, to take this logic a further step forward, develop a competitive process to encourage providers of all types to build their partnerships and to come forward with proposals for new integrated health enterprises. The goal would be to adopt as much as possible from the private sector, while remaining within the limits of the Canada Health Act.

Government could help significantly by developing legislation and policy and processes which encourage proposals of this kind, while ensuring proper public accountability for these new health enterprises.

We believe this practical approach is preferable to asking the Health Services Restructuring Commission or District Health Councils or any other government agencies to present visions and recommendations on the overall shape of health services in Ontario. Why? It's very simple. Because, even with consultation and the best intentions in the world, no one individual or group of individuals is smart enough to do it.

Let me explain!

No one body is smart enough to produce a dynamic vision for the Ontario health-care system, because we cannot today adequately interpret the rapid changes in technology, finance, human skills and consumer preference into a detailed vision of how the system should function.

The government of Ontario has a huge opportunity before it if it transcends the urge to "vision" and micromanage. Its alternative course is to let health policies evolve based on present capabilities and consumer patterns and to accelerate that evolution through appropriate and flexible process. The inevitable results will be both better service and lower cost. A change of this kind might have the very beneficial effect of turning down the thermostat of public concern.

At present, the Ontario government is busy making many re-investments of some of the money taken out of hospital budgets and it makes an announcement a day. It is a process of reactive micro-management. Everyone can see that there is no game plan. Brush fires break out everywhere. If I could sum it up in one sentence it is: If you micro-manage the decisions, you attract all the risk and generate much controversy. If there is one message I'd like to leave with the government, it is this one, and I hope you don't mind if I repeat it: Micro-managing the decisions is the surest way of wearing all the risk and ensuring a continuing higher level of public controversy.

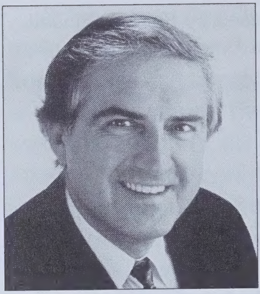
In summary, we have a hospital system in Ontario that is delivering quality outcomes; one that has demonstrated this by its performance, its flexibility and adaptability; and one that has put the province in a good position to realise savings.

However, hospital people are still concerned, because government is making decisions that are not evidence-based and not consumer-focussed. We have now an exciting opportunity to do things better by applying approaches drawn from the private sector to the management of the system. Inventing new bureaucracies, conjuring up new visions or insisting on micro-managing—all prominent features of the Ontario health landscape today—must be discarded. They belong in the past.

By taking the pathway I have just outlined we can deliver better quality health care at an affordable cost. A very big win is possible in Ontario health care, if the government starts to push decisions down into the system. Its basic role then would be evocative—to draw the best ideas from all providers and build a new system based on the strengths of the system that now exist and on lessons we can learn from the industrial economy around us.

Thank you.

The appreciation of the meeting was expressed by Ronald Goodall, FCA, Partner, Goodall & Peacock and a Past President, The Empire Club of Canada.



April 1, 1997

The Hon. Roy Romanow

Premier of Saskatchewan

SASKATCHEWAN'S SOCIAL AND ECONOMIC ACCOMPLISHMENTS—AN EXAMPLE FOR AN ALTERNATIVE NATIONAL AGENDA?

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Marnie McGarry, Director of Development, Adventure Place, Calico School and a Director, The Empire Club of Canada; Benjamin Lord, OAC student, Oakwood Collegiate; Jim Estey, Joint Managing Director, Bunting Warburg (born and raised in Saskatchewan); Bruce Rivers, Executive Director, The Children's Aid Society of Metropolitan Toronto; David Wilson, President and Deputy CEO, ScotiaMcLeod Inc.; Janet Ecker, Ontario Minister of Community and Social Services; Steve McGirr, Vice-Chairman, Wood Gundy Inc.; Larry Stout, CTV Journalist and Broadcaster and a Director, The Empire Club of Canada; Rosemarie Popham, Executive Director, Campaign 2000—a coalition of 50 groups across the country that are monitoring the progress of governments in eliminating child poverty; The Rev. Canon Timothy Elliott, Rector, Christ Church Deer Park; Peter Warrian, Former Chief Economist, Province of Ontario and Senior Research Fellow, Centre for International Studies, University of Toronto; and Reay Mackay, President and COO, RBC Dominion Securities Inc.

Introduction by Julie Hannaford

If the province of Saskatchewan is known for one thing, it must be known for its resilience to extremities, for in its career since Confederation it has weathered the great extremities for which our Canadian environment is known. As the agricultural bread basket for Canada, Saskatchewan has weathered its way through drought, pestilence, flood and every other imaginable barometric extremity that Mother Nature could dish up.

Most recently, however, Saskatchewan's environmental extremities have been less of a challenge, and more of a metaphor for the economic extremities that have confronted the province.

In 1991, our guest, The Honourable Roy Romanow became Premier of Saskatchewan. For those of us following the news over the last two weeks, we know that Premier Romanow has confronted an economic situation that latter-day psychologists (dedicated to positive verbal spins) would brightly call a "significant challenge," and which more pragmatic realists would tersely describe as a "crisis."

The story of how our guest managed the province through its most significant fiscal extremity in history is already becoming a part of Canadian economic history, and might well serve as a blueprint for both business and government confronting similar challenges today and in the future.

Premier Romanow was born, raised, and educated in Saskatchewan, having received his degrees in arts and in law from the University of Saskatchewan. He began his political career with his first election to the Saskatchewan Legislature in 1967, after which he was re-elected in 1971, '75, '78, '86, '91, and '95. In the government of Allan Blakeney, Premier Romanow served as the Deputy-Premier of Saskatchewan as well as Saskatchewan's Attorney General, during which time he introduced reforms of the judicial system including legal aid, the development of a Human Rights Code and a Human Rights Commission and the creation of the Ombudsman's Office. Our guest played a key role in the federal-provincial negotiations resulting in the Constitutional Accord of November, 1981.

Our guest was acclaimed Leader of the New Democratic Party, succeeding Allan Blakeney on November 7, 1987. In 1991, Mr. Romanow led the Saskatchewan New Democratic Party to a 55-seat majority government.

Today, the Premier offers an overview of the fiscal reforms and philosophy that led Saskatchewan out of the economic wilderness.

But it is important to remember that in addition to his fiscal steerage, the Premier also has been dedicated to the development of a comprehensive programme to address the role of the child in society, including a Child Action Plan, the creation of a Children's Advocate, and legislation to protect victims of domestic violence.

Saskatchewan has set an example for fiscal and social leadership, and The Empire Club of Canada is honoured to have as its guest, the pioneer of that new model.

Please join me in welcoming to The Empire Club of Canada today, the Premier of Saskatchewan, The Honourable Roy Romanow.

Roy Romanow

Mr. President, members of The Empire Club, and friends. I want to begin by thanking you for inviting me to address you.

I want to speak today about three topics. First, I would like to give you a brief report on Saskatchewan's most recent provincial budget, and on our economic situation. Second, I want to speak to you about some of the principles and values that underpin that budget and our vision for our province into the 21st century. And third, I want to speak very briefly about how our approach might point the way to something like an alternative Canadian agenda, an agenda at least worthy of national debate.

Let me begin by telling you briefly about our provincial budget and our economy. We've been in office for nearly six years—to be exact, five years, five months, and two days. But hey, who's counting? Sometimes, some days, I did. In 1991 our province was running, on average, a billion-dollar deficit each and every year. In the result, the provincial debt was run up to $15 billion—costing our treasury at its peak over $880 million in annual interest costs. Back then, my trips to New York to visit with our bankers and bond raters were not quite as pleasant as this one.

Just to give you a flavour of those days, here is a quotation from a report issued just last April by the Bank of Canada: "…Saskatchewan, where debt accumulation was particularly rapid, stands out as the province that experienced the largest number of downgrades as well as the largest cumulative reduction in rating (of any province in Canada). Based on Standard and Poor's ratings, the long-term debt of Saskatchewan was downgraded in five steps between 1986 and 1992 from AA+ to BBB+. The number of prospective institutional buyers of Saskatchewan bonds is estimated to have fallen from 125 to 140 when the province's rating was AA+, to about 25 to 30."

So, as you can see, this was a situation that called for immediate and bold action. We opened the books. We told the people of Saskatchewan about the challenge. And we laid out a four-year plan of recovery. Tough decisions about government spending and services were made. In some cases, we had to cut; in some cases, we had to redesign; and in some cases, we had to increase revenues. Through it all, however, the people of Saskatchewan showed their mettle—pulling together, sacrificing, and rebuilding. And so today, I have a different and much happier story to tell.

This year, we presented our fourth straight balanced budget. No other government in Canada can say this. Let me give you some of the highlights.

The banner news was a dramatic two-point cut in our sales tax. From nine per cent to seven per cent. This new seven-per-cent rate, charged on the narrowest tax base of products and services in all Canada with the exception of the province of Alberta, means that our families now pay the second-lowest sales tax. Although Alberta has no sales tax, they do charge their citizens annual $860-per-family health premiums. So, one might say, what you win on the oranges, you lose on the bananas.

We are also adjusting our business-tax regime to make it as competitive as possible. For example, Saskatchewan now has the lowest effective tax rate on manufacturing and processing in Canada, for both small and large firms.

And two years ago, we introduced an income-tax reduction which removed over 6,000 taxpayers from the rolls.

Tax cuts were a good place to start, but we are doing more. Today, we're able to envision a programme to improve the quality of life of our citizens. We call that programme or vision "investing in people." How?

- First, investing in jobs, our top priority. A five-year blueprint to increase employment. The tax cuts just outlined are central to that strategy.
- Second, investing in education. More for work force training; for better university training; and for better elementary and secondary education to give our kids a "head start."
- Third, investing in health care—more for seniors' care; for modernising the system; and for better community-based services;
- Fourth, investing in infrastructure, particularly in transportation to maintain our transportation system—a critical investment in our economy, given the on-going erosion of Western Canada's transportation network; and
- Fifth, investing in our children, and particularly in combatting child poverty.

Just an extra word on this issue. Friends, in 1995, the Canadian Conference of Catholic Bishops said: "Almost one Canadian child in five lives in poverty in one of the richest societies in world history, a damning indictment of the present socio-economic order." They're right. This begs for a national response—and as soon as possible. But we're not waiting. At the provincial level, this year we doubled funding for Saskatchewan's unique Action Plan for Children, an integrated set of services targeted at child poverty. Our Action Plan has been recognised by the Children's Welfare Society as the best of its kind in Canada.

At the national level—where the real solution must be found—we're strongly and repeatedly urging the integrated National Child Benefit. Ottawa responded with a slow start in the right direction in this year's federal budget. Their initiative is welcome but is delayed by 18 months and has no road map to reach our destination. I want to stress that Canada has an opportunity to demonstrate again our values of compassion and opportunity if we have the courage to arrive at an early agreement on this issue. Successfully implementing a National Child Benefit would be good for kids, and good for Canada—demonstrating that our nation still works, and still cares. That's why Saskatchewan is going to continue to press all governments to act, nationally, on this urgent social need.

Finally, our budget continues to pay down the public debt. We've captured a patch of dry land in the ocean of red ink we inherited. Our plan will get provincial debt as a percentage of GDP down from a staggering 70 per cent in 1993 to 48.8 per cent this year to 36.4 per cent by the end of the year 2000–2001.

Although we advocate a strategy of "investing in people," the days of runaway government spending are over in our province. We're re-inventing programmes to meet today's circumstances. So, we'll spend less on programmes in absolute terms this year—and for each of the next three years—than we did in 1991, and we will still end up with a modern, forward-looking vision for the 21st century.

So, to sum up, these are the key elements of our budget:

- Tax relief.
- Strategic investments in people.
- Paying down debt.
- A balanced approach.

So economically, what's the picture? In 1996:

- resource exploration set a new high;
- business investment was up 18 per cent;
- manufacturing shipments were up 10 per cent, the highest increase in Canada;
- retail sales were up eight per cent, triple the Canadian average;
- housing starts were up more than 40 per cent;
- our unemployment rate is the lowest in Canada; and
- our population has increased every quarter for 13 straight quarters.

I think you get the picture. All in all, there is a remarkable spirit of confidence, hope and optimism in my province. Take a look at us. It's spring time in Saskatchewan. So what, if anything, can be applied to Canada as a whole from what I've told you about our approach? Three things, I think. First, let's define and stick to our values—accommodation, community, sharing, opportunity, and fairness. Second, let's work as a team—whether it's on trade missions, debt management, or new social services like the National Child Benefit. And third, let's avoid extreme solutions.

For example, some say we should focus exclusively on reducing taxes. Well, if we did, what about:

- the need for a world-class education and training system?
- the need for a competitive transportation infrastructure?
- the need to get people—especially children—off welfare?
- the need to ensure a modern, effective, sustainable public health-care system—Saskatchewan's gift to Canada?

Canada should not be—cannot be—in the business of competing in the global economy at the low-wage, low-skill, low-value, low end. We should strive for the high end. That means all partners in the economy have to pull their weight, including government. That's why a "balanced" budget strategy must include, as one of its core components, investing in people.

Some say spend every available penny paying down the public debt. Well, the answer here is the same. This approach means government fails to pull its weight in the great task of building a prosperous, competitive, and decent society.

And then, some say spend every available penny on more government spending, on every conceivable public service. Keep things exactly as they were 10 and 20 years ago, no matter what the cost. Well, there is nothing "progressive" about blindly defending the past, in my view. The world is changing. Society's needs are changing. New priorities and challenges lie before us. And so do new solutions. Good, balanced government is about positive change, about renewal.

That's my basic point. Government is about balance—about carefully balancing seemingly competing, but actually complementary and mutually reinforcing priorities, and so arranging the affairs of state that society makes steady progress towards all of them. I believe the same "balanced approach" can be applied to many of the daunting challenges facing our federation—which brings me to my third topic.

I've been talking recently about a six-point "alternative national agenda." What would it look like?

- First, a commitment by all Canadians to a strong social safety net, a publicly delivered health system, and an accessible post-secondary educational system. In many ways, social programmes define us to each other, and our nation to others.
- Second, a co-operative, national fiscal management plan that would allow governments to tackle the debt problem in a co-ordinated way, and restore integrity to our nation's public finances for all orders of government.

- Third, a comprehensive taxation review to ensure our tax system is fair, effective, and properly co-ordinated.
- Fourth, a nationally co-ordinated investment strategy to help build a skilled, literate, and innovative work force.
- Fifth, a gradual levelling up of labour, environmental and other standards to balance greater trade liberalisation and capital mobility.
- Finally, a modernised federation, with more collaborative and effective federal-provincial decision making, and a constitution which recognises the role of the Quebec government in protecting and promoting Quebec's identity.

Let me conclude my talk by saying a few extra words about this last, important matter. The Acts of Confederation created a new nation called Canada. A new nation which represents more than the sum of its parts. A new nation which represents a commitment by all of us to share a common future, based on shared values of accommodation, community, sharing, opportunity, and fairness. We have developed a unique society through our social programmes and economic development—one of the most tolerant, progressive and democratic nations on earth. Saskatchewan is intervening in a pending Supreme Court reference case on Quebec's supposed right to secede. We will make this point about Canada being more than the sum of its parts, and we will stress that this file involves more than the government of Quebec and the federal government. It involves all Canadians. It is time to clarify the guidelines for the future debates to come.

Having said that, it is obvious that we need to continually work at modernising the federation, in order to ensure our nation remains true to the values I mentioned a moment ago. Our federation faces some tough issues:

- Inefficiencies caused by overlap and duplication of services and policies, which in turn produces unnecessary entanglement between the two main orders of government.
- Inequities in terms of transfers from the federal government to the provinces for social programmes and immigration services.
- The unfairness of the tax system.
- Continuing erosion of our social programmes, stripping away the opportunity for many in our society to live up to their fullest potential.
- The remaining need to recognise and accommodate the collective aspirations of Quebeckers, within Canada.

Almost all of these issues can be remedied without constitutional amendment, through common-sense arrangements. Much has already been done, through recent initiatives on issues like manpower training and immigration. This is not a call for massive decentralisation—which is not a panacea for all of our problems. Balance is required. Doing the above represents 80 per cent of the solution.

Still, the remaining 20 per cent must deal with Quebec's role within our nation. This will require constitutional change, which at its heart must recognise the distinct, unique and historical position of the province of Quebec. Not enough attention is being paid to this last, vital remainder, in my view.

Some see Mr. Bouchard's current struggles with his public finances and economy as hopeful signs that he and his colleagues will somehow abandon their profound commitment to taking the province of Quebec out of this great country. Others say the timing is not correct. For whatever reason, federalists outside Quebec in particular have so far refused to engage in the development of a package of initiatives which would be acceptable to that large majority of Quebeckers who still see Canada as the best option. We must not be lulled into wishing this away. We must do more.

We don't need full-blown constitutional conferences or discussions.

We do need an intelligent discourse about alternatives, and movement towards a sensible and fair package which—exhibiting one of Canada's great values of accommodation—embraces Quebeckers' hopes and aspirations.

Given the pending federal election, right now may not be the correct time to begin this dialogue, but we must engage in it as soon as possible thereafter.

When that inevitable day arrives, when Quebeckers are forced to decide once again, we must have demonstrated through common-sense arrangements and constitutional arrangements that Canada works and that, as the United Nations has said, it is the finest place in the world in which to live.

Thank you.

The appreciation of the meeting was expressed by Larry Stout, CTV Journalist and Broadcaster and a Director, The Empire Club of Canada.

April 10, 1997

The Hon. Jean Charest

Leader of the Progressive Conservative Party of Canada

NEW DIRECTIONS AND NEW CHOICES FOR CANADA

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

John Tory, President and CEO, Rogers Multi-Media Inc., Co-Chairman, PC Toronto Dinner 1997 and Second Vice-President, The Empire Club of Canada; John Medland, Head Steward, Upper Canada College; Sarah Band, Owner, Bianco Plus and a Past President, The Empire Club of Canada; Dr. James Gillies, Professor, Schulich School of Business, York University and Former Member of Parliament; The Hon. Barbara McDougall, Chairperson, AT&T Canada Long Distance Services and Former Cabinet Minister; William Thorsell, Editor-in-Chief, The Globe and Mail; Michelle Dionne, Special Education Teacher and wife of our guest speaker; The Hon. Henry N.R. Jackman, Chairman of National Trustco Inc. and The Empire Life Insurance Company and a Past President, The Empire Club of Canada; David Edmison, Director, Martin, Lucas & Seagram and Immediate Past President, The Empire Club of Canada; Wendy Lambert, OAC student, City Adult Learning Centre; Rev. Grant Kerr, Minister, St. Paul's United Church, Brampton; Don McDougall, President, Novatronics Inc. and Accuform Golf Corp. and Past Chairman, PC Canada Fund; Dr. Sherry Cooper, Chief Economist and

Sr. Vice-President, Nesbitt Burns Inc.; and A. Charles Baillie, President and CEO, The Toronto Dominion Bank.

Introduction by Julie Hannaford

The tradition around introductions of speakers at The Empire Club of Canada dictates that a brief biographical tour be undertaken with respect to each guest. The function of such biographical tours is to locate the speaker in his or her rightful place in politics, art, science, or generally the calling in which they have become distinguished. Today, in many ways a biographical sketch of our guest seems redundant for members of The Empire Club of Canada have heard Mr. Charest's background at least three times. We therefore know that he was called to the Quebec Bar in 1981. We know that after his election in 1984, he held several portfolios until he was appointed Leader of the Progressive Conservative Party of Canada in December, 1993. We know that when Mr. Charest was appointed Minister of State for Youth, he became the youngest person to ever serve in cabinet, and we know that only four years after that first appointment, Mr. Charest played a critical role as Chairman of the Special House of Commons Committee to study a companion resolution to the Meech Lake Constitutional Accord.

In the case of Mr. Charest however, I would hazard to say that what we know about Mr. Charest is secondary to what all of us most vividly remember about the last 12 years that Mr. Charest has enjoyed in the political field. What we remember is Mr. Charest's energy in his dedication to the study and understanding of the issues surrounding the Meech Lake Accord. What we also remember is his energy, his optimism, and his straight shooting, as he rode into each of his roles as Deputy Leader in 1989, as Minister of the Environment in 1991, and as Deputy Prime Minister and Minister of Industry and Science.

Perhaps what is recalled most distinctly is the time toward the end of October, 1995, in a hockey arena in Verdun in the midst of the referendum, when a young man stepped up to the podium and spoke extemporaneously, passionately, and eloquently, and in so doing, transformed the debate into a matter of vision.

What the media tells us about the Canadian population on the threshold of another election is probably true. We are a nation beleaguered by politics, made cynical by promises unfulfilled, and distrustful of any political platform. But the media is also telling us that we as a country are positioned to take our place as a leader in the global economy and we are seen by others as possessing virtues to aspire to, rather than lessons to learn from. If we fail to look forward and grasp a vision, then we risk losing all of those opportunities.

One of the media commentaries on the various campaigns brewing up to the election has suggested that the price of admission to the debates about the future of Canada is the ability to talk about the past. While this may be true, we should remember that if we spend all of our time looking backward, we shall miss or at the very least, stumble over those opportunities and challenges that might well shape the future.

Jean Charest has always looked forward and moved forward. That is the burden and benchmark of leadership. We are therefore honoured and privileged at The Empire Club of Canada to have Mr. Charest share his views and visions as we move forward today. Ladies and gentlemen, please join me in welcoming to The Empire Club of Canada, The Honourable Jean Charest, Leader of the Progressive Conservative Party of Canada.

Jean Charest

The upcoming election will be about who has a new vision for the future of Canada and a plan to take us there. It will be about the choices and the new approaches we need to take as a nation to secure a successful and prosperous future in the new global economy. It will be about restoring a national government with the creativity to set clear directions and the will to lead this country in the race to the next century. It will be about the difference between staying the course and setting the course.

The election platform I unveiled here in Toronto three weeks ago presents these new directions and new choices. It presents a vision for a revitalised national government that establishes new goals for a confident and prosperous Canada, with national and international benchmarks to measure our progress.

Our platform lays the groundwork for long-term consumer confidence, job creation and employment security. It presents a comprehensive plan to create new jobs by reducing the tax burden on individuals and businesses, breaking down inter-provincial trade barriers, guaranteeing the future of health care for Canadians and their families, ensuring that our students can compete in the new global economy, and reforming our federal system to make it work better for Canadians.

This plan provides the right choices for Canada:

- Instead of the despair of unemployment, it will create at least one million new jobs in our first mandate and at least one million more in the second mandate.
- Instead of overtaxing Canadians to build up an unnecessary surplus in the employment insurance fund, it will cut the Liberals' EI job tax by $5 billion.
- Instead of another $3.8 billion in cuts to health care and post-secondary education, it will restore federal dollars to these critical programmes and guarantee their future funding.
- Instead of watching the academic achievement of our young people fall further behind the world, it promises action to close this growing knowledge gap.
- Instead of an $11 billion tax hike, it will make different choices to secure the future of the CPP.

Getting government right today means changing what we expect of government. It means understanding the challenges of the emerging global economy and their impact on our competitiveness and trade. It means making different choices about federal spending that creates jobs and protects health care. It means providing new national leadership that leads Canada confidently into the future.

While the international economy may have changed, domestic economies still operate the way they always have. When people are not working, they do not have the income to consume. When those people with jobs find the government's hand constantly in their pockets, they do not spend. And when companies are overtaxed, they do not invest in growth and jobs.

We see results of an overtaxed and stagnant economy around us every day:

- an entire generation in one of the most prosperous countries in the world afraid that it will not enjoy the same standard of living as its parents;
- working Canadians worried about their jobs and economic security; and
- older citizens facing their retirement with apprehension rather than confidence.

Working Canadians have less income today than when the government was elected. In the three years the Liberals have been in office, personal disposable income has actually declined by one per cent, while it increased by 11 per cent in the United States. Is it any wonder that we are experiencing a jobless recovery? This is not the Canada our parents worked so hard to build, and it is not the future our children deserve.

Our first priority must be to create new jobs for Canadians. To do this we must put money back into the hands of the biggest job-creating machine in this country—the Canadian consumer. We will:

- cut personal income taxes by 10 per cent over the next four years, and we will further lower personal tax rates to provide an additional $12 billion in net personal tax reductions by 2005;
- increase the basic income tax credit from $6,459 to $10,000, taking two million working poor Canadians off the tax rolls, and saving money for every taxpayer;
- move to a simpler and fairer system of two tax rates, and end the three-per-cent income surtax on all taxpayers;
- and because high payroll taxes kill jobs and growth by taxing every new job that is created, we will reduce employment insurance premiums by close to $5 billion.

The Liberals have told Canadians that none of this is possible, that we cannot defeat the deficit and have tax cuts at the same time. I know from experience that when a government says "tax cuts later," it means "tax cuts never." And that means jobs can wait. I also know from my time in government that when you get dug in on the wrong side of an issue, it is very hard to admit you were wrong and change course.

So I have a little challenge for Mr. Martin. Look at the numbers again. Obey your instincts. Take some of that employment insurance surplus you have been hording and give it back to Canadians. Give a helping hand to the consumer. Take a gamble on jobs. Choose growth.

A critical part of our plan is to make tough choices about federal programme spending. Our plan sets new priorities for federal spending and details $12 billion in cost savings. These cuts will be accomplished by cutting those programmes that are no longer necessary, amalgamating existing departments, transferring several programmes to the provinces and managing more effectively. This plan will result in real priority setting to ensure Canadians receive the best possible services at the lowest possible cost.

Inter-provincial trade barriers cost this country billions of dollars in lost productivity every year. Tearing down these trade barriers is not just a matter of common sense, it is an issue of economic self-interest. The Canadian chamber of commerce estimates that an increase in inter-provincial trade of only 10 per cent would be worth 200,000 new jobs. It is still easier to trade between Ontario and Ohio than it is between Saskatchewan and New Brunswick. Successive governments have lacked the vision and commitment to meet this problem head-on.

Action on inter-provincial trade barriers is also a simple question of leadership. The agreement on internal trade negotiated by the current government is full of loopholes. It requires unanimity among the provinces to tear down barriers, which means that any one province can block progress for all the others. There is no enforcement mechanism, so third parties cannot fight back. We propose one final effort, with a one-year deadline, to negotiate free internal trade co-operatively with the provinces. If that does not work, I am prepared to act alone.

If the provinces and the federal government cannot solve this problem within one year, I will use the federal trade and commerce powers to establish an inter-provincial trade commission to remove the barriers once and for all, and establish a climate for jobs and growth. The commission will ensure that Canadians are guaranteed the ability to work wherever they choose. It will establish common standards for corporate and business registration and help abolish the barriers to employment mobility created by professional and occupational certification.

Just last month, the federal government was forced to make a significant change in the immigration regulations. It is going to allow computer and software companies to bring in workers from offshore without having to prove that they have been recruited within Canada. More than any other example I have seen, this illustrates how the federal government is asleep at the switch. Here we have a new industry where Canadians have proved they can compete and prosper against the best and brightest in the world, and we have to look beyond our borders for skilled workers. This is nothing more than a world-class failure of vision, and a world-class failure of planning.

And as usual, the Liberals' answer is to opt for the short-term, cosmetic fix—just let a few thousand well-trained people into the country and that will solve the problem. That's not good enough. I know, as everyone else does in this country, that education is a provincial responsibility. But that cannot be an excuse for inaction by the federal government. If we as a country do not respond with creativity to the challenges of the knowledge economy, opportunities and prosperity will go elsewhere.

How can it be that we spend the most per capita on education in the world, while our students place near the bottom in comparisons with other OECD countries in mathematics and science? One reason is that we have tended to measure success in terms of how much money we spend, instead of the results we achieve.

If the ability of our young people to compete in the international marketplace of ideas and jobs is not a Canada-wide interest, then I do not know what is. If our students cannot make the grade at home, then how will we as a country be able to compete abroad?

I believe that ensuring the quality of our education system requires new national leadership, and I am prepared to work closely with the provinces and territories to make education a national priority.

We will provide that leadership by:

- establishing a national testing institute to test our students to find out where they stand;
- building on the work begun by the council of ministers of education to establish inter-provincial standards for common curricula across the country;
- providing a 10-year, free right-of-way on federal lands and to waive federal taxes on the construction of the fibre-optic highways to connect our schools with the world;
- ensuring that every grade-school classroom has a computer and that all Canadian university and college students have their own computer;
- creating a $100 million merit-based scholarship programme for 25,000 needy students; and
- establishing, with the help of the private sector, a national, universal student assistance programme

that is available to every post-secondary student in the country.

Canadians are worried about the future of health care in this country and they have good cause to be concerned. By cutting transfers to the provinces, the current government has put Canadian health care on the critical list.

In their 1993 red book, the Liberals said: "It is essential to provide financial certainty and predictability for our health-care planning." That is one promise they have kept. Canadians know with certainty that the Liberals have cut transfers to the provinces for health care by 40 per cent and it is clearly predictable that there are another $3.8 billion in cuts on the way. Canadians know that taking an axe to health care is no way to guarantee its future.

Our plan takes a completely different approach. It recognises that at a time of acute personal insecurity, we cannot have Canadians worrying about the future of health care. We cannot jeopardise a programme that gives Canada a huge economic advantage against our international trade competitors.

Our plan will restore the cash portion of federal funding for health care and post secondary education at the level of $12.5 billion. It will ensure future funding growth for these critical programmes by converting federal cash into tax points that grow in value with the economy and that will guarantee provinces and territories the increased funds they need to sustain and meet the needs of our expanding and aging population. It will also prevent the federal government from ever again solving its spending problems on the backs of the provinces.

Canadian federalism, our political, economic and social union, is in serious need of repair. We need a more creative, more comprehensive federalism to make that union stronger, more effective and more dynamic. We need a new way to help this country work together.

We all recognise that fundamental constitutional reform in the short term is not on, but that does not mean that we must stand still. I am not a centralist, but neither am I prepared to close down the federal government to please the provinces.

My preference is to put aside the bickering and deadlock of the past and find what works. We can pursue non-constitutional changes that will create a more effective and efficient balance between the two levels, and that make practical sense. In some cases, such as training, this will mean giving the provinces much larger roles in the definition and delivery of services. In others, such as inter-provincial trade, it may involve exerting a stronger federal presence. And in areas such as education, it will likely require developing a more co-operative approach to a common challenge.

In my vision of federalism, the federal government protects the national interest, and services are provided by the level of government closest to the people and best able to do so. And they have the taxing powers to meet those responsibilities.

Our platform defines a new framework, called the Canadian covenant, which will allow Ottawa to exercise necessary leadership while ensuring the co-operation we need between governments to secure our quality of life, and help the national economy grow and create jobs. Our approach to renewing federalism starts with a new Canadian covenant. It has three objectives:

- to maintain the common high standards that Canadians expect for the most important services;
- to move services closest to the people they serve; and
- to recognise the flexibility the provinces and territories need to respond to the differences that exist across the country.

At the core of the covenant will be the five existing principles of medicare, which will not be compromised, to ensure that universal access to health care remains a fundamental of Canadian citizenship. The covenant will include the new structures to guarantee free trade within Canada. As we agree with the provinces on a wholesale transfer of responsibility for training, that will be included too. We will also be looking to end the long-standing overlap between the federal government and the provinces in such areas as mining, forestry, tourism promotion and elsewhere.

Let me be very clear. A strong and vigorous federation is not a luxury to pursue when we get around to it or when the stars are in the right location in the distant future. It is the prerequisite for stability, job creation, growth and prosperity. If this country is not rooted in a strong and successful economic union that promotes job creation and growth, then our future is in jeopardy.

I understand that Mr. Martin has some problems with our platform; he says the numbers do not add up. Am I surprised? Not really; I did not exactly expect a ringing endorsement.

But let me assure you that our assumptions and projections are as cautious and prudent as they can be—4.2-per-cent nominal growth in gross domestic product, 2.5-per-cent real growth and inflation of 1.7 per cent. These are all lower than the private-sector consensus of economists in all cases.

The tax, fiscal and expenditure plan contained in the platform, combined with the action I have outlined on inter-provincial trade, will guarantee the future of health care, balance the federal budget in the year 2000 and create two million jobs over the next 10 years.

And unlike Mr. Martin and Mr. Manning, our assumptions about economic growth are all out there in public for everyone to see. By the way, what are their economic assumptions and where are they?

Canada has always been a country of endless horizons and possibilities. Our ability to succeed is limited only by our ability to turn the challenges of the present into the advantages of the future. Canadians have always been successful at seizing the future against tough odds; we have done it many times before. It is no different in 1997. Today, Canadians know that their horizons are much larger than they were in the past. Globalisation has brought the world to our door, but it has also brought fierce competition, far-reaching economic restructuring and a revolution in the way we live and work. As a result, Canadians are uncertain about their future. They wonder where their government is leading them and they doubt it has a plan. They want to know whether this country will be a contender in the race to the next century or just a bystander.

A wise person once said that "to govern is to choose." For the past three and a half years, Canada has had a government of wrong choices. When the Liberals say the choice is deficit reduction or job creation, that is a wrong choice, and also, incidentally a false choice. When they say that the only action government can take to create jobs is public-works spending and make-work programmes, that is a wrong choice. When they cut health-care and education transfers by 40 per cent while cutting Ottawa's spending by only two per cent, that is a wrong choice. And when their only response to the lack of skilled Canadians is to open the borders, that is a very wrong choice.

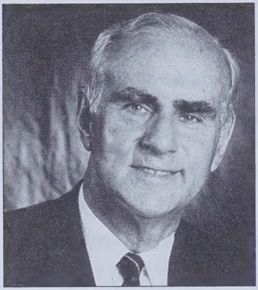
In the coming election, Canadians will also have some serious choices to make. We can sit back and let the future happen to us, or we can make the decisions to make it ours.

The Liberals offer the status quo—no changes to challenge the way things are, no upsetting departures from the predictable and no vision and no plan.

We believe we have a better idea. We can opt for lower taxes to support job creation and growth. We can choose to guarantee the future of health care. We can strengthen our economic union by getting rid of inter-provincial trade barriers. We can ensure our children have an education that equips them for a competitive world. And we can rebuild our federation to provide the foundation for stability and economic prosperity.

Our plan restores a national government with the vision to set new objectives for this country and the creativity to see new horizons. It is a plan that sets the course, instead of staying the course. It believes that Canadians will make the right choice.

The appreciation of the meeting was expressed by The Hon. Henry N.R. Jackman, Chairman of National Trustco Inc. and The Empire Life Insurance Company and a Past President, The Empire Club of Canada.



April 17, 1997

The Hon. Henry N.R. Jackman

Chairman, The Council for Business and
the Arts in Canada

PRIVATE GIVING IN CANADA

Chairman: **Julie Hannaford**
President, The Empire club of Canada

Head Table Guests

John Sadler, Vice-President, Corporate Relations, Newcourt Credit Group and a Director, The Empire Club of Canada; Tony van Straubenzee, President, Rockhaven Consulting Inc. and a Past President, The Empire Club of Canada; Mary Lou Fallis, Distinguished Soprano, "Primadonna on a Moose"; Donald K. Johnson, Vice-Chairman, Nesbitt Burns; Georgia Prassas, President, Canadian Opera Company; Paul Hoffert, Chairman, Ontario Arts Council; Monty Larkin, Associate Director, Ireland Fund of Canada and an Honorary Director, The Empire Club of Canada; Peter Ferreira, OAC Student, Central Commerce School; The Rt. Rev. Arthur Brown, Past Bishop, York Scarborough Anglican Diocese of Toronto; Douglas W. Knight, Publisher, The Financial Post; and Anthony R. Graham, Senior Executive Vice-President, Levesque Beaubien Geoffrion.

Introduction by Julie Hannaford

During this past year, The Empire Club of Canada has been privileged to offer its podium to leaders, both national and international, in the fields of industry, science, education, and finance. Their addresses have heralded the words for the millennium. Clearly, we shall be a nation enriched by the values of instantaneous communications, and the challenges of global competition. We are in the midst of being transformed by the way we do business, the way we communicate, and the way we prepare our children to participate in the new global metropolis.

In our society, however, as we become increasingly defined by our ability to compete, communicate, and integrate our lives with the changes wrought by technology, science, and industry, we face perhaps a greater challenge. That is, that we as a society, will turn away from those values that ensure the very existence of a social organisation—that we shall lose our sense of community, and our sense of obligation and participation in the community, to the greater concern of winning at all costs. What defines us as a civilised society is not only our fiscal performance, nor our ranking amongst industrialised nations, but also the degree to which social interdependence, the sense of being obliged to give to one's community, constitutes an important value.

Where shall Canada be as we approach the millennium in terms of our status as a society that prospers not only because of its competitive energy, but because of its devotion to inter-dependence and the value of giving?

Colonel The Honourable Henry Newton Rowell Jackman, known perhaps better as "Hal" is known well as Ontario's 25th Lieutenant-Governor since Confederation, having served from December, 1991 until January 24, 1997, bringing greetings from the Queen to people, communities, and groups throughout Ontario. Today, The Honourable Hal Jackman brings to The Empire Club of Canada the concerns and issues that must accompany us as we march towards the millennium. Mr. Jackman's career is distinguished in business and politics, but perhaps his greatest distinction is his unswerving and passionate dedication to the life of Ontario and Canada in the community.

He has participated in charitable endeavours involving the arts, medicine, and learning as President of The Canadian Opera Company and The Ballet Opera House; as Chairman of the Atlantic Council of Canada; as Chairman of the Board of Trustees for the Canadian Red Cross Pension Fund; as Founding Chairman for the Regent Park Community Health Centre; as Vice-President for the Canadian Foundation for AIDS Research; as a Director for the Institute for Research on Public Policy, the Canadian Institute of Strategic Studies and the Ontario Heritage Foundation; and as Trustee for the Stratford Foundation Festival Fund, the Toronto Western Hospital, and the Art Gallery of Ontario. He is currently

Chairman of the J.P. Bickell Foundation and The Council for Business and the Arts in Canada.

His honours and distinctions include the appointment as Founding Chairman of the Ontario Foundation for the Arts; the election to Chancellor of the University of Toronto, effective July 1, 1997; the conferring of no less than seven honorary degrees; the conferring of the Knight of Justice in the Most Venerable Order of the Hospital of St. John of Jerusalem and a Knight Commander of the Military and Hospitaller Order of Saint Lazarus of Jerusalem.

Our guest's distinctions, honours, and service include having been President of The Empire Club of Canada in 1971–72. Colonel Jackman's dedication to public service, and his passionate investment and reinvestment in the community, serve not only as a backdrop for his address today but as an example for those who wish to lead their business and their community into the millennium.

Ladies and gentlemen it gives me great pleasure to ask you to welcome a person who as Past President of The Empire Club needs very little introduction, because he did so many introductions—our guest of honour, The Honourable Hal Jackman.

Hal Jackman

Madam Chairman, today I would like to speak to you about philanthropy and charitable giving. This is the first time that I have had the privilege of speaking in any formal sense since I retired as Lieutenant-Governor of Ontario last January.

As you all know, the lieutenant-governor is a post which is rooted in our history and traditions. Ontario had a lieutenant-governor even before we had a city of Toronto. But as you know the power of the office has withered away over the years—usurped in my case by the likes of Bob Rae and Mike Harris so that the political role is now largely symbolic—the reading of the speech from the throne, giving royal assent, etc. Although these duties are important in reminding us of our traditions, they of course take very little time and would not, in my opinion, justify the position on their own.

Our country, however, has many other traditions. I am speaking now of citizenship, volunteerism and private philanthropy—all traditions which are well rooted in our history. It is the encouragement of these values that takes the great bulk of any lieutenant-governor's time.

So today I want to talk to you about citizenship and private philanthropy.

Over the past five years I have had the privilege of seeking what is best in our country. Most of the events the lieutenant-governor attends are volunteer recognition events, frequently marking the conclusion of some successful community endeavour. I have been continually impressed by the dedication and willingness of communities to help and be supportive of those in need. There are over four million volunteers in Canada contributing over one billion hours per year. Volunteerism and philanthropy are what makes Canada great. It is the essence of citizenship which defines us as a nation.

And yet when we choose to measure what we contribute it is perhaps inevitable that we make comparisons with our closest neighbour, the United States, whose history in so many ways parallels our own. Volunteerism, as measured by numbers of volunteers, is perhaps three times as great in the United States as it is in Canada. Charitable giving, according to the House of Commons Finance Committee, is also almost three times as great. Canadians give 0.7 per cent of their taxable income to registered charities. Ironically for higher income donors, that is those who make more than $100,000 a year, the comparison shows that Americans give four times as much as Canadians. Similarly in the corporate sector, charitable giving is more than twice as great, relative to our size. Foundation giving in this country is a pittance compared to the United States.

The question therefore that we must ask ourselves is: "Why? How is it that we seem to be less generous?" Some have said that it is the tax system in Canada which is not conducive to giving when compared to the United States. However, as I will mention later, this is all changing. If I had to speculate on a reason for this discrepancy it is because in this country we have unfortunately raised our expectations of government so high that we have forgotten that citizenship, as broadly defined, is much more important than government or public policy.

When I mention citizenship the first thing that of course comes to mind is political activity of some sort, participating in elections by the simple act of voting.

Every four or five years the politicians descend upon us, bombarding us with red books, blue books, green books which dutifully set out each candidate's 25-point plan for creating jobs, aiding the deserving, reducing the national debt, lowering taxes and balancing the budget—all dutiful compared with the alternative candidate's programme for doing the same.

Under this narrow definition, citizenship is necessarily an episodic, infrequent event, its chief purpose being to turn over to supposedly qualified experts the real business of public life, namely the designing and launching of public programmes of all sorts, to bestowing upon the unfortunate, the tender mercies of bureaucrats, policy experts and others who claim to be uniquely qualified to deal with our problems. Once a citizen has voted he is supposed to get out of the way and let the experts in Ottawa take over. Is it any wonder that Canadians today feel profoundly alienated from public life and that citizenship, understood as voting, holds so little appeal.

Genuine citizenship is much more. It involves active participation in the vast realm of human affairs known as civil society. And civil society encompasses all the institutions through which we express our interests and values. It includes what we do as members of our families, as students, as parents within our schools, as worshipful attendees of our churches and synagogues, faithful members of service clubs and neighbourhood associations and even organisations such as The Empire Club of Canada.

Citizenship occurs therefore not occasionally or infrequently. It occurs regularly and constantly in countless ways. Through countless subtle daily interactions citizenship gives form and substance to the everyday qualities and values without which life would be impossible—honesty, perseverance, self-restraint, personal responsibility and service to others by willingly sustaining those who may fall behind. Through our civil institutions, in short we grow into complete human beings.

In the United States more than 100 years ago, Alexis de Toqueville, in his "Democracy in America," expressed the classic expression of wonder and admiration at the incredible energy generated by America's vast array of civic institutions. Everywhere he looked he noted Americans had come together to tackle the problems that faced them in the undeveloped wilderness.

De Tocqueville was of course writing about the United States but was the situation of the early pioneers in Canada any different? In the province of Ontario when land was opened up to our settlers there were no roads, no schools, no hospitals, no government services of any kind. Our ancestors only survived because they accepted responsibility to look after each other. If someone was sick the neighbours would help to bring in the crops. They took turns in boarding the local school teacher. They gave of themselves to their community and they built a nation.

Unfortunately in Canada for some reason we are in danger of losing that spirit of community and citizenship. Instead of citizenship being a vigorous, multifaceted participation in civil society we are asked to pay through our taxes the cost of having others provide for us. We are asked in this country to remove the public business from the world of the active citizen to the centralised world of the professionalised bureaucracy. Our civil institutions are pressured to surrender authority and function to the professional elites of the central bureaucratic state.

Instead of trying to rejuvenate civil society, our government elites call for even more government programmes, more bureaucrats and professionals. Yet this however does not seem to solve our problems. In fact it may make them worse as government intervention undermines and weakens the authority of the very civil institutions that lie at the roots of our historical consciousness as a nation.

If we are not as generous as the United States it is not because on a personal level we are less, but simply because our government leaders have told us they would do more and therefore as Canadians we need to do less.

Those who would defend what I might call this Galbraithian commitment to the public purpose will of course point out advantages in our Canadian system.

We have a system of medicare in Canada which is generally felt to be far superior to anything that exists in the United States. We have a comprehensive system of unemployment insurance which provides a social safety net unequalled in our neighbour to the south. In Canada operating funds for hospitals and universities were, until recently, almost entirely provided for by government. Government grants to arts and culture, particularly to the CBC our public broadcasting network, are much greater in this country. Whether all these activities should be carried out exclusively by government or to what extent the private sector should play a role, is of course a matter of debate. Feelings run very high on these issues. What however becomes patently clear is that there is a hidden cost to large government programmes—because it is obviously apparent that there is a strong correlation between government support and the lack of private-sector support. Canadians naturally feel that if government assumes complete responsibility (and the politicians will never be adverse to taking the credit) they will be reluctant to supplement government spending with private-sector donations.

Thus we have in this country a "crowding out" effect. As government crowds in, the private sector will feel crowded out. Taxpayers are reluctant to make a voluntary contribution when they say they have already made an involuntary contribution through their taxes.

Canada has always struggled to define itself as a nation, but when we say that we are "kinder and gentler" than our neighbours to the south, I think there is now a very real danger in defining our national identity in terms of government programmes. That was perhaps justifiable during the 60s and 70s when the economy was expanding and we could show the rest of the world how progressive we were. The difficulty of course is that when the money runs out and government funding is no longer available, we run the risk that if we continue to identify our nationhood in terms of diminishing government programmes, then the justification for Canada itself may also diminish. It is valid to ask whether the current malaise that exists in our country, the feeling of alienation against Ottawa and governments in general, the rise of separatism and demands for local autonomy may directly relate to the current decline of the Canadian welfare state which seems no longer to be politically acceptable or financially sustainable.

The fact of the matter is that governments have no money. The only money they have is our money. And if the truth be known it is not even our money. It is borrowed money which must be repaid by succeeding generations. I am not sure how kind and generous we are or how good citizens we are if we ask our children and our children's children to pay for our consumption today.

Whatever you feel about government involvement in society, it is clear that if government programmes do not expand to meet our expectations then private charity must fill the gap.

I mentioned earlier that Canadians on average give 0.7 of one per cent of their incomes to charities. The comparable U.S. figure is almost three times as great. In dollar terms this translates into $5.8 billion that Canadians do not give, but perhaps should give, to charity. I am talking only about Canadian individuals. This figure excludes corporations and foundations. Almost $6 billion is a lot of money.

It would seem therefore that the purpose of both public and private policy as we approach the millennium should not be to complain about government cutbacks, but to take the necessary steps to ensure that the private sector can unleash the almost $6 billion which we do not give but which we must give if we are able to continue to call ourselves a generous people.

It has been estimated that government cutbacks to private charities have been in the neighbourhood of $500 million. Although $500 million is no small change, it is minuscule compared to the additional $5.8 billion that individual Canadians can give if they so choose. Necessity is always the mother of invention. Once our citizens know there is no big government there to do it for us, I am sure that they will react with the generosity of spirit which characterises every Canadian.

Already there are signs that the private sector is responding. At the University of Toronto some years ago it became apparent that increases in government funding would not be sufficient to maintain the excellence and quality of education of that great institution. Ten years ago they raised $10 million from the private sector. By 1994 it was up to $22 million, $33 million in 1995 and a staggering $85 million in 1996, almost nine times what it raised only 10 years previous.

The Council for Business and the Arts in Canada, of which I am Chairman, and which exists primarily to encourage private-sector support for the arts, surveys annually close to 200 not-for-profit arts organisations. Government funding for these organisations was $99 million last year and has not increased for five years.

Private-sector donations on the other hand grew to $65 millions, an increase of 50 per cent during the same period while government revenues remained constant.

Two years ago I initiated, along with the J.P. Bickell Foundation, the Lieutenant-Governor's Awards for the Arts. These awards go to institutions who conduct themselves on a sound financial basis and through fundraising and community involvement demonstrate a lessening dependence on government support. Last year we awarded $300,000 to 20 different arts organisations in Ontario, ranging from the Stratford festival to small, experimental theatres such as the Tarragon and the fringe of Toronto theatres. These 20 organisations experienced a total decline in government funding in the past two years of over a million dollars. However earned revenue and private-sector donations increased by $8.7 million or almost by nine times the decline in government funding. I am proud of these companies because it shows what can be done.

CJRT (Ryerson radio), a public broadcasting radio station which has a larger radio audience in Toronto than the CBC, had its last government grant eliminated last year. They met the challenge, raising the necessary funds from the private sector. They have every right to feel proud. The CBC, on the other hand, still gets close to $1 billion from the federal government and yet refuses or is unable to raise donations from the Canadian public. Of course the CBC apologists continue to complain about "cutbacks" and say they need even more public money so as to "define us as a nation." Well, it is not the CBC that defines us as a nation; it is the people of Canada through their countless individual acts of philanthropy, whether it be for CJRT, the University of Toronto or any of the multitude of worthy charitable causes that define us and give us our identity.

And as our private charities are raising more, there seems to be a change taking place in official attitudes to private philanthropy by at least some of our public-policy decision makers. This is obviously what has motivated the federal government in the last two budgets, increasing tax credits to those who would give to charities. For more than two generations Canada penalised charitable gifts, apparently feeling that expenditures by the governments were a preferable route towards building a great society. Now this attitude is changing.

In the United States for charitable giving you get a credit against taxable income of up to 50 per cent. In Canada the credit has now been increased from 20 per cent to 75 per cent, now much higher than the United States. Tax on gifts of appreciated property, such as shares in public companies, has been cut in half. Now for the first time, no one can honestly say that the official attitude towards giving as evidenced by our tax policy is less positive towards charities in Canada than it is in the United States.

This is a tremendous shift in public policy which has not been adequately covered by the press or understood by the Canadian public. Governments are not saying that hospitals, universities and the arts are not deserving of more funds. They are simply issuing a clarion call to the people of this country that if they feel more money should be spent in these areas, then they should give generously and the government will effectively match their gift by means of a credit on their taxes.

Now is the opportunity for Canadians to really prove that they are as kind and generous and humane and tolerant as we keep saying we are. Government may have cut off $500 million in grants to private charities, but they have created a tax climate which will allow private charities to access up to $6 billion in individual donations.

The age of big government programmes may be fast disappearing. In Canada the age of the volunteer is beginning to re-emerge. We will get back to that spirit of community which nourished us during our formative years.

And as dependence on governments declines and as private-sector donations increase, similarly the responsibility of boards will increase and I suspect organisations will be much better run. Government programmes are never as cost efficient or as good as community-run programmes. It is axiomatic—the greater the community involvement the greater and more direct the accountability.

We have in this country great traditions. Reliance on government is not a tradition. It is simply an act of dependence. Our tradition embraces freedom, self-reliance but also a commitment to help our neighbours who are in need.

Volunteerism is not just a characteristic of Canada; it is Canada. Canadians are clearly willing and eager to take control of their daily lives again. Canadians are ready for what might be called a "new citizenship." And for a great many Canadians it will mean that we will finally be getting our country back again.

The appreciation of the meeting was expressed by Tony van Straubenzee, President, Rockhaven Consulting Inc. and a Past President, The Empire Club of Canada.

April 21, 1997

A joint meeting of The Empire Club of Canada and The Canadian Club of Toronto

Rosalie Abella

Justice, Court of Appeal for Ontario

THE MEDIA AND THE COURTS

Chairman: **Stanley Hartt**
President, The Canadian Club of Toronto

Head Table Guests

Julie K. Hannaford, President, The Empire Club of Canada and Partner, Borden & Elliot; The Honourable R. Roy McMurtry, Chief Justice of Ontario; Donna Logan, Executive Director, Media Accountability, Regional Director, Province of British Columbia Canadian Broadcasting Corporation; Sara Jackman, Trustee, The Jackman Foundation; Professor Irving M. Abella, Department of History, York University, Glendon College; Richard Dicerni, President and Chief Executive Officer, Canadian Newspaper Association; Knowlton Nash, President, Canadian Journalism Foundation; and Reverend Dr. David Winsor, Deer Park United Church.

Introduction by Stanley Hartt

Rosalie Abella

What I have to say will necessarily contain generalisations that give new meaning to the word "sweeping," all to accommodate limitations of time and expertise, so I ask for your indulgence in advance that the wide brush strokes I use to fill my canvass don't offend your sense of perspective. I acknowledge that there are varieties of medias, courts and even publics, but because I tend to treat them in this talk as monoliths, I accept in advance any criticism flowing from my failure to make distinctions between them.

There are many ways to approach this topic, most of which I'm not allowed to talk about. The questions of gag orders, prior restraint, cameras in the courtroom, fair trial vs. free press are the classic aspects of a media-court relationship and have been much written about. Since there is nothing I can offer about these high-profile preoccupations without attracting the attention of the Judicial Council, I had to find another way to address the issue. The second tier in the relationship is the one which acknowledges the importance of the media to the courts and focuses on how best to keep the relationship open and healthy. This is the layer that addresses the need for more co-operation from the judiciary; a greater willingness to make more accessible its systems and its language; a greater role in training journalists who cover the courts, as Chief Justice Latimer suggested several years ago; and better clarification of the permissible limits of media conduct while a case is before the courts. All these are approaches I agree with, but all these too have been canvassed extensively and enjoy, I think, a healthy consensus from the judiciary. It is, after all, hard to quarrel with the theory that justice must not only be done but it must be seen to be believed.

It is to the third layer that I want to address myself; the foundational one that examines the respective institutional roles of the media and the courts.

For me, any discussion of the relationship between the media and the courts makes no sense unless we start with first principles. Without this intellectual grid, any discussion of the other two layers takes place without context and we are left in a perpetual and frustrating state of adversarial misunderstanding.

In many ways the media and the courts perform analogous functions. We both watch the public; judge it; and attract criticism when our observations or judgments offend someone's alternative perspective. We are expected to be fair, impartial, and independent of the persons we are observing or judging. We are accepted as being central to a properly functioning democracy and from time to time resented for this centrality.

But there are also fundamental differences. The courts operate according to accepted legal standards and principles and can be judged accordingly. The media, which regrettably under-reaches by treating itself as a trade rather than a profession, operates according to no overriding governing code and cannot as easily therefore be held to account. The courts watch only those aspects of the public brought to them by a litigant for review; the media is free to take its flashlight anywhere. Courts judge only those disputes before them; the media judges anything and anyone it wants. Judges ever since the Magna Carta have been truly independent and can only be removed from office for manifest breaches of public confidence; the independence of journalists on the other hand is frequently circumscribed by the philosophies or economies of their owners. Fairness and impartiality for courts means hearing both sides with an open mind; for the media being fair frequently means getting as many of the facts as you can in the deadline allotted.

Although both the media and the courts are institutional cameras taking snapshots of the public at various stages of its evolution, the media is by far the more influential and powerful of the two because its camera is bigger, has more equipment, and above all, because it gets to decide which pictures it wants to take.

This is the source of the media's power and it is a power people in my generation have seen flourish. I was born the year after the Second World War ended. The next 50 years contained in my mind the most dramatic constellation of economic, social, political and legal transformations ever to be found in a single half century, most of which I learned about from the media. It is no accident, in my view, that these reformations occurred when they did. The five previous decades had started with waves of immigration and the universality of industrialisation, then moved through the two world wars which sandwiched the Dionysian hedonism of the 20s and the Apollian despair of the 30s.

The pressure these events put on our understanding of human nature and needs eventually pushed us against most of our existing institutions and social alignments and bent them into new shapes. Once we recovered from the unforgivable years we had allotted to Joseph McCarthy's venom, and once we finished our post-war recuperative indulgence with our taste for banality and conformity in the 1950s, we finally put the pieces of the previous half century together and started our howl in the 60s.

What happened next were insistent demands from women, minorities, disabled persons, children, workers, gays, environmentalists, consumers, nationalists and aboriginal people, to name a few. Not that any of these issues were new; North American history was replete with episodic requests for social revisionism from these groups. But by and large, the pre-war efforts on behalf of those on the margin who wanted in never engaged enough of the public's attention to find its way into the enthusiasm of elected officials and therefore into legislated change.

The difference in my generation was that the public's conscience was alerted and what made the difference, in my opinion, was the media. Never having experienced the heyday of yellow journalism for whom the 3Rs, according to one columnist, were Rape, Rot and Ruin, I grew up in an era when for me journalism meant the Pentagon Papers and Watergate and This Hour Has Seven Days and the Journal. To many of us, the media seemed compassionate, fearless and ready to lend its influence to the forces for change who were unhappy with the way the status quo had distributed society's amenities.

And here the media merged seamlessly with the courts. It should come as no surprise to learn that many of the barriers to social entry sought by those pressing their noses to the system's windows were legal ones. One by one, with assistive attention from the media they came down. One of the more defining examples of this court-media domino effect is the Murdoch case galvanising this generation's women's movement, a movement I observe parenthetically and nostalgically which at the time had the apparent support of both of Canada's official genders. Murdoch was the 1973 Supreme Court of Canada decision applying legal doctrine with a century-old pedigree. The doctrine had the effect at the end of her marriage of denying a farm wife any share of the farm she practically ran during the marriage.

The media grabbed the story and jolted the public out of its complacency about family law. Most Canadians at the time thought universes and laws unfolded as they should, and were generally unaware of the economic consequences of marriage breakdown. Irene Murdoch, through the media, introduced those consequences to the wives of this country and the reaction was swift. By the end of five years even before any statutes were changed, the Supreme Court reversed the principles in Murdoch with a 1978 case called Rathwell, and most provincial legislatures subsequently changed their family property law regimes to recognise marriage as a social and economic partnership with a more equitable distribution of entitlements on separation.

The media clearly played a leading if not primary role in changing public attitudes and the law, but Murdoch is by no means the only example of how the media's reaction to a court case helped formulate public policy. There can be little doubt that as the chief informer to the public, the media also plays a role as chief former of that public's opinions. Because the media decides what the public will know, the media acts as the gatekeeper of public policy, agendas and ideas.

In my view this puts the media in a kind of fiduciary role vis a vis a public dependent on it for information and the ideas that flow from it. Walter Lippmann conceded that people tend to define first and then see, rather than the other way around. This means we tend to observe events through our own preconceptions, most of which we get from the media. If I keep hearing that reducing deficits is government's overriding duty to future generations, I may over time stop worrying about how a lack of resources will affect this one. If I keep hearing the slogan, "Can we afford to?" I may stop asking, "Can we afford not to?" If I keep hearing that the courts are trespassing on legislative territory, I may stop asking if the decision is fair. With daily, monthly, or yearly reinforcement about how a particular issue, or part of the world, or a person is portrayed, most of us will, in the absence of evidence to the contrary, come to accept the media's perception as reality.

The courts are no less subject than any other institution to the media's transmission of perceptions to the public. But because the commodity the courts trade in is justice, and because justice is so universally seen as a defining entitlement I thought it was worth spending my remaining minutes clarifying the context in which the justice stage seems to be lit by the media.

The 15th anniversary of the Charter of Rights and Freedoms provides a perfect setting for this discussion because it is, in my view, the Charter that has brought most of the judicial myths out of the closet, and paraded them even though the styles do not fit. The primary magnetic myths to which the media and therefore the public have become so attracted, are those four which hold that judges should only interpret, not make law; that "biased" means having opinions; that the courts have become politicised; and that the courts should pay more attention to public opinion. I make these comments not to resist criticism, because I appreciate that the media is neither the court's press agent nor adversary; rather, I make them in the spirit of trying to keep the criticisms constructive.

To begin with, it is, with respect, unrealistic to say that judges should not make law, they should only interpret it. Almost every time judges interpret, they make law and, implicitly, weigh competing values. Long before we had a Charter, we had judges taking values into account when they interpreted statutes or phrases or legal entitlements. When we consider the following examples, we see how difficult it is to say that these judges were not reaching legal conclusions based on their understanding of, or sympathy or antipathy for current social values: the judge who in 1873 said, "The paramount destiny and mission of women are to fulfil the noble and benign office of wife and mother"; the judge who in 1915 thought admitting women to the legal profession would be a "manifest violation of the law of … public decency"; the judge who said in 1905 that fault-based support laws were desirable because wives "ought to be preserved from imminent temptation"; the court that said in 1975 that property rights take precedence over peaceful picketing; the courts that said in 1949 that sanctity of the contract and restrictive covenants took precedence over the rights of Jews to purchase property; and the court that said in 1939 that freedom of commerce took precedence over the rights of Blacks to be served beer; not to mention the entire history of common law that was all law making, all weighing and applying values and policy, and all before the Charter.

Weighing values and taking public policy into account does not impair judicial neutrality or impartiality. Pretending we do not take them into account and refusing to confront our personal views and be open in spite of them may be the bigger risk to impartiality. It is fundamental that judges be free from inappropriate or undue influence, independent in fact and appearance and intellectually willing and able to hear the evidence and arguments with an open mind. But neutrality and impartiality do not and cannot mean that the judge has no prior conceptions, opinions or sensibilities about society's values. It means only that those preconceptions ought not to close his or her mind to the evidence and arguments presented. We must be prepared, when the situation warrants, to experience what Herbert Spencer called "The Tragedy of the Murder of a Beautiful Theory by a Gang of Brutal Facts." There is a critical difference between an open mind and an empty one.

In assessing how impartial the courts are, I think the media's tendency to use labels or epithets instead of analysis is not particularly enlightening. Provocative phrases may all too easily become shorthand ways to avoid thinking through rights issues. The phrase "political correctness" may replace the need to think about the disadvantaged; the phrase "special interest groups" may replace the need to entertain valid grievances; the phrase "reverse discrimination" may replace the need to open the competition; and the phrase "the merit principle" may replace the need to discuss whether we have it. Not every pro-female decision is feminist and not every pro-male one reflects a chauvinist bias. Attributions like "progressive" and "conservative" are meaningless in most judicial contexts.

One of the labels which is least helpful and the most inappropriately inhibiting is that the courts with the Charter are becoming "politicised." The courts are not becoming politicised. They are becoming nothing they have not always been: reviewers and interpreters of the rules to which society through the legislature has proclaimed itself subject. The Charter is the klieg light that exposed this judicial reality; it was not the instrument of a new judicial norm. The relationship between courts and legislatures in the interpretation of public values has not changed with the Charter; only the public's interest has. In the 19th century for example, the British Prime Minister, Lord Salisbury, felt sufficiently moved to rebuke Lord Halsbury as follows for the House of Lords' routine declawing of social welfare and labour legislation: "The Judicial Salad," he said, "requires both legal oil and political vinegar, but disastrous effects will follow if due proportion is not observed."

But courts preventing rights like those in the era of Lord Halsbury or in the pre-court-packing-plan era of the American Supreme Court were rarely dismissed as being politicised, even though they were no less activist than later courts which expanded them. If it is clearly appropriate for courts to deal with the interpretation of rights, one wonders why they are deemed to be "politicised" only when they interpret them expansively.

There is no question that lines have to be drawn and care taken, but the sophisticated process of line-drawing does not lend itself to as easy an inquiry as whether a particular issue has a "political" component, since most constitutional issues do and always have had.

The reason legislatures give courts the power to enforce charters of rights is that while both courts and legislatures are entitled to enforce rights, only the courts have the institutional characteristic that best offers the possibility of responsiveness to minority concerns in the face of majority pressures—namely independence. Only courts have the independence from electoral judgment to risk controversy in enforcing rights. Controversy attracts attention. Attention attracts criticism, and the favourite criticism of courts in the enforcement of rights is the suggestion that they have become "politicised," when in fact all they have done is perform the interpretive duty assigned to them by the legislature.

And here we come to the role of public opinion. Society is horizontal and vertical and it is practically impossible to know at which point a consensus emerges. Until we know whom the public is and how it forms opinions, courts deciding cases are entitled scrupulously to regard public opinion as the responsibility of the legislature and generally as immaterial to judicial determination.

Public opinion in its splendid indeterminacy is not evidence. It is a fluctuating, idiosyncratic behemoth, incapable of being cross-examined about the basis for its opinion, susceptible to wild mood swings and reliably unreliable. Part of the task, in fact, may be to reach a conclusion despite the perceived prevailing public opinions. When we speak of an independent judiciary, we are talking about a judiciary free from precisely this kind of influence. As Lillian Hellman once said; "I will not cut my conscience to fit this year's fashions." Whatever evidentiary tool the legislatures use to gauge public acceptance, judges use a totally different measurement of relevance because the object of their task is totally different. In framing its opinions the public is not expected to weigh all relevant information, or to be impartial, or to be right. The same cannot be said of judges.

But although judges are not accountable to the public in the same way as are elected officials, this does not mean that they are not accountable. While they may not be accountable to public opinion, they are nonetheless accountable to the public interest for independent decision making based on discernible principles rooted in integrity. Performing the task properly may mean controversy and criticism. But better to court controversy than to court irrelevance, and better to court criticism than to court injustice.

Because delivering justice to the public is the object of the exercise for courts, and because the media plays such a fundamental role in communicating whether the public is entitled to feel confidence that the delivery is fair, I want to close with a story which for me shows the link between knowledge and justice poetically and forcefully.

The story is taken from a book called Fragments. It has just recently been published and was written by a man now in his mid-fifties living in Switzerland. The title of the book comes from the fragments of memories he recovered with the help of a therapist in recent years. The memories relate to the years he spent from the age of four or five in concentration camps. After the war, when he was 10 or 11, he was placed in a foster home in Switzerland. The horror and brutality of the only life he had really known left him totally unprepared for the civility of his new surroundings. School in particular was utterly bewildering. And hence this story about the day he was totally humiliated by his teacher in front of a giggling classroom when he was asked to identify a coloured poster of the Swiss hero, William Tell, whom he had of course never heard of:

"What do you see here?" (the teacher) asks.

"Tell! William Tell! The arrow!" they're calling from all the benches.

"So—what do you see? Describe the picture," says the teacher, who's still turned toward me.

I stare in horror at the picture, at this man called Tell, who's obviously a hero and he's holding a strange weapon and aiming it, and he's aiming it at a child and the child's just standing there, not knowing what's coming.

I turn away. Why is she showing me this terrible picture? Here in this country, where everyone keeps saying I'm to forget, and that it never happened; I only dreamed it. But they know all about it!

"You're supposed to be looking at the picture—what do you see?" she asks impatiently.

"I see—I see an SS man," I say hesitantly, "and he's shooting at children," I add quickly.

A gale of laughter in the classroom.

"Quiet," barks the teacher, then turns back to me.

"I'm sorry—what did you say?" and I can see that she's getting angry.

"The hero's shooting the children, but ..."

"But what?" the teacher says fiercely. "What do you mean?" Her face is turning red.

"...But, but it's not normal," I say, trying not to cry.

"Who or what isn't normal here?" Now she's beside herself and shouting. I force down the lump in my throat and try to concentrate. But I can't interpret what's going on. What's this about?

"It's not normal, bec., because..." I'm stuttering again.

"Because why?" she says loudly.

"Because our block warden said, 'Bullets are too good for children,' and bec., bec., because only grown-ups get shot or they go into the gas. The children get thrown into the fire, or killed by hand—mostly, that is."

She screeches, losing her composure.

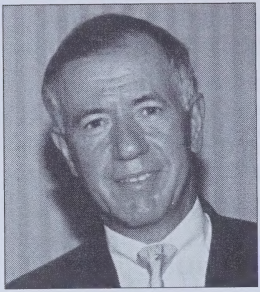
"Sit down and stop talking drivel."

I look over at the teacher, standing there shaking with anger, standing there in front of the big blackboard, her hands still on her hips. My eyes begin to smart, and the big blackboard turns watery, gets bigger and bigger until it surrounds the whole classroom and turns into a black sky.

This is a story about a child who interprets the world based on what he knows, and a teacher who judges his answers based on what she does not know. Ignorance in a child is understandable. Ignorance in an adult who should know better is unforgivable.

We are each limited by what we do not know and we are each limited by what others do not know. With knowledge comes understanding, with understanding comes wisdom, and with wisdom comes the capacity to judge fairly. This in the end is what the public expects from both the courts and the media, and this, in the end, the public is entitled to get.

The appreciation of the meeting was expressed by Julie K. Hannaford, President, The Empire Club of Canada and Partner, Borden & Elliot.



April 23, 1997

Jürgen Weber

Chairman of the Executive Board,
Lufthansa German Airlines

DESPATCHES FROM THE GLOBALISATION FRONT

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Anne Libby, Owner, Libby's of Toronto Art Gallery and a Director, The Empire Club of Canada; Christel B. Neuman, Vice-President, German-Canadian Business and Professional Association; The Rev. Victor Reigel, Associate Pastor, Christ Church, Brampton; Ulrich Wachter, Vice-President, Lufthansa Canada; Marcia McClung, President, Applause Communications and a Director, The Empire Club of Canada; Bernd Hoehne, Vice-President, German-Canadian Chamber of Industry and Commerce; and Professor Doctor Klaus Conrad, Visiting Professor, German and International Studies, Centre for International Studies, University of Toronto.

Introduction by Julie Hannaford

The Empire Club of Canada's speaking season begins on May 1 of each year, and the beginning of the 1996-1997 season was marked by an address by Helmut Schmidt, the former Chancellor of Germany. It is fortunate, therefore, that we move to the closure of this 1996-1997 speaking season, with an address from Jürgen Weber, the Chairman of Lufthansa. As we opened our season with Helmut Schmidt, who talked about Europe in the 21st century, we were looking forward to the challenges of globalisation set against the backdrop of unification. Since then, we have heard from leaders in business, politics, finance, and education, all of whom addressed issues of competition and co-operation on the global frontier.

One would think that the airline business would be immune to any challenges or barriers associated with globalisation. After all, in many ways it is the airline industry that permits the blending and breaking down of barriers to communication, trade, and transport over vast distances. Yet, as we have seen in the reports on the progress and challenges facing both our domestic and international air carriers, globalisation presents its own set of challenges to the airline business.

Today, we are privileged to hear from the leader of an airline that has not only survived the challenges of globalisation, but has positioned itself as a winner in the global marketplace.

Jürgen Weber was born in Lahr, in the Black Forest. He studied aeronautic engineering in Stuttgart, and business administration at the Massachusetts Institute of Technology. He is an airline executive who has worked in both the technological and the business sectors, beginning in the Engineering Division of Lufthansa, moving to the Technical Division, where he answered to the Federal Civil Aviation Administration on questions of aircraft maintenance and overhaul. He became responsible for that division's profitability, and in March, 1989, Mr. Weber began his career as Lufthansa's business leader, with his appointment as Deputy Member of the Executive Board, and later, his appointment as Chief Executive for Technical on January 1, 1990. He has served as Deputy Chairman of the Executive Board, and in May, 1991, he was unanimously elected as Chairman of the Executive Board of Lufthansa. In the last six years, Mr. Weber has confronted, overcome, and set an example for steerage of the airline industry into the 21st century.

We are honoured to have Mr. Weber address the Club, particularly since Mr. Weber has agreed to speak on his views as to the effect and future of globalisation in Europe generally. His talk is entitled "News from the Globalisation Front." It is appropriately named because Mr. Weber has served, fought, and led on that front.

Ladies and gentlemen please join me in welcoming to The Empire Club of Canada today, the Chairman of Lufthansa, Mr. Jürgen Weber.

Jürgen Weber

Mr. President, ladies and gentlemen:

Reading the history of your venerable institution, Mr. President, I discovered that one of my German predecessors here as speaker—worthier of admiration than I would ever want to be—was Ludwig Erhard. He is well remembered as our economic minister of the fifties, Chancellor and revered father of the German "Wirtschaftswunder," the so-called "economic miracle."

The memory of Ludwig Erhard as a man of foresight and vision has been revived in my country this year for two reasons.

First, the one-hundredth anniversary of his birth in February caused many people to look back with nostalgia on the enormous tasks that accompanied the reconstruction of our economy after the war. Ludwig Erhard introduced to the Germans the social-market economy which led to an unprecedented phase of over 40 years of stability, prosperity and social peace.

The other, perhaps not so nostalgic, reason was the question: "How would he, the great conceptual thinker and practitioner, tackle the challenges of globalisation, which are worrying so many people in industrialised countries today?"

I have given my address the headline "Despatches from the Globalisation Front," which admittedly sounds rather martial. But many regard the effects and repercussions of globalisation as an attack on their personal career, livelihood and standard of living. Many see them as a threat to the company they work for and their jobs.

Some of the fears may not be without foundation. The other day I read a provocative thought by a German historian who said: "Globalisation and the decline of ancient Rome have one thing in common—they are unavoidable." Ominous as his statement may sound, the historian is probably right: The decline of Rome gave way to a new world order—and so will globalisation.

Many of us sense that this opening of the world which we are witnessing in the wake of the international division of labour, the liberalisation of world trade, the collapse of communism, the start of the World Trade Organization, and the harmonisation of lifestyles that goes with open societies everywhere is, indeed, creating a different world order.

A globalised world is a world following what I call the logistic principle. Its smooth running will only be guaranteed when people are able to meet each other and when goods are made available at the right time, in the right place and at the right price, anywhere in the world. The degree to which for instance the German economy is linked to the world economy and its reliance on foreign trade may be highlighted by the following figures. Since the days of Ludwig Erhard, West German exports have multiplied ninety-fold while imports have grown sixty-fold. Compared with these figures the nominal domestic product has increased only thirty-fold.

A globalised economy simply means that all factors of production, that is natural resources, capital, technology and labour, as well as goods and services move around the world at an accelerating pace.

In the globalised world of today, production goes where the conditions are right and the infrastructure is available. Global sourcing, for instance, has become a matter of course for every German—and I suppose Canadian—shopper these days. The import quota in their shopping carts probably exceed that from many domestic industries.

All that encourages business people to travel, and goods to be flown on airplanes. International lifestyles make tourists fly longer distances to find the relaxation and stimulation which make a vacation exciting. Aviation growth is not only passenger numbers, but also the number of kilometres flown.

This dynamism calls for smooth connections in the world's skies and therefore requires major players in the airline industry to adopt a global perspective in their strategy and work.

The price regime of pre-deregulation IATA times has definitely become obsolete in face of the megatrend towards open markets, the worldwide division of labour and liberalised trade. The removal of trade barriers is playing an important role, but its effects can only bear fruit when efficient transport is available at attractive prices.

So, the need for new perspectives has become particularly urgent with airline deregulation and liberalisation, another megatrend of our times. I would like to dwell on this for a little while because the Lufthansa case is an interesting example of an airline repositioning its strategies under the impact of globalisation.

When I took over the chairmanship at Lufthansa we were facing a critical time. Then, back in 1992, the airline industry was suffering from the repercussions of the Gulf War and excess capacities. To aggravate the managerial challenge, 1993 brought the third package of airline liberalisation in Europe removing virtually all market access, capacity and pricing restrictions.

Yields were falling. In fact, over a five-year span from 1990 to 1995 European airlines lost 25 per cent of their average ticket revenues—a landslide, despite annual passenger growth figures of some four to six per cent. Lufthansa, still majority-owned by the state at the time, faced tremendous adaptation problems. And we were heading towards a loss of some 735 million Deutschmarks—$613 million Canadian.

So we set out to do three things: to put our house in order, to adapt our structures to the challenges of globalisation and liberalisation and to develop a strategic vision.

The first two prongs of this three-pronged approach can be sketched out fairly quickly.

In a drive to achieve operational recovery we slashed our material costs by 15 per cent. We trimmed 17 per cent of jobs from the work force, nearly 8,000 positions, and we improved our productivity by 31 per cent within two and a half years. The reward for these efforts was a return to a profit that turned the red figures I mentioned to more than the same amount in black figures, 756 million Deutschmarks—$630 million Canadian. That enabled us to successfully privatise the company.

As a second step, we re-aligned our core-business activities, outsourced non-related activities, and gave autonomy to important segments of our business, such as cargo, maintenance and overhaul and EDP services. Only a few days ago our passenger airline became a separate, self-managed business unit as well. Small units operate closer to the customer, and they are quicker to respond to market needs and market changes. Their accountability is much greater.

As a third strategic step we have repositioned the company as a global player. It was apparent to me that home markets in the airline industry will no longer serve as a protected niche for flag carriers. Airlines compete not only on service but primarily on price and network quality. Of course, the new open world of commerce and industry corresponds to the wider scope of our customers' activities. They want, and expect, enhanced offers in an enhanced network of air services spanning the globe.

It was clear to me that the task of creating such a network of global magnitude required resources of equal magnitude. This would overstretch the capabilities of a single carrier, even those of an airline of our size, ranked third in international passenger kilometres transported.

Another factor cannot be overlooked. In spite of the global character of flying and the greater freedom a liberalised regulatory regime offers, the airline business still remains fairly restricted. This is due to the bilateral nature of international air agreements, ownership rules—such as the 25 per cent cap on foreign equity in U.S.

carriers—and the comparative advantages or disadvantages of locations. It is not easy for airlines to switch production as, say, a car manufacturer could do.

And this is where alliances come in. They are capable of eliminating some of those restrictions that a globally tuned industry is facing.

So we started to create a network of like-minded airlines, well established in the four corners of the globe. Although the notion of airline alliances meant treading on fairly unknown territory we pursued—in retrospect—the right approach and teamed up with blue-chip companies in our branch of industry, such as Air Canada, United Airlines and VARIG on this side of the Atlantic. Our major partner in Europe is SAS Scandinavian Airlines. In Asia it is Thai Airways International and Ansett of Australia. We are presently looking for an additional partner in this large and booming region. In Southern Africa we have teamed up with South African Airways.

The right approach was not to enter into equity partnerships—a concept followed by our major rivals. It has caused them a number of problems or resulted in slow progress in alliance building. We and our partners believe in a freer approach. The fear that someone might try to dominate or exert undue influence is, after all, not a good base for a partnership.

What makes our alliances tick? It is kindred spirits and the pursuit of a policy of mutual benefit and trust. And that is based on comparable interests, comparable quality and complementary networks, where you have little overlap. Cultural fit is all important and we share common values such as flexibility, internationality and the willingness to share our good ideas.

Alliances, and that is our credo, must create added-value for our customers.

We have enhanced our networks enormously through code-share flights and improved connections. Our partnership with Air Canada is in a comparatively early stage.

At present, we offer 84 weekly code-share flights to seven destinations. With United Airlines we are already offering 3,100 weekly flights to 106 joint destinations.

Also, we want to make terminal transfers easier to improve flight connections, we have pooled our mileage programmes and we will recognise the status of our partners' frequent travellers, and, finally, we see to it that world-wide standards of safety and comfort are being applied.

We will not deny that alliances are also meant to bring advantages to the airlines. We have pooled a number of our resources. Our passengers, for instance, can use our partner's lounges. We have not had to open up new offices despite a much wider network, and with some partners we have even pooled our personnel. Other synergies will come with joint procurement of materials such as computers and—maybe at a later stage—new aircraft.

This all sounds so very easy. But you might ask me now: "How did you sell all this to your staff?" They, of course, have had to adjust mentally and physically to this new world, make job changes and accept a certain amount of cutbacks in our recovery phase. Yes, there have been job changes, a change in many people's career prospects and there have been cutbacks—both in staff numbers and even in pay. And to make things more complex, we do not cultivate a hire-and-fire culture in Germany. Many other European countries don't either. Some people think this is part of what has generally been termed the European disease caused by an extensive social safety net.

Much has been said about German co-determination law and labour representation on supervisory boards. You may be surprised when I claim that we were able to undertake all these fundamental changes not despite the social rules of the game but by using the opportunities they offer to win the full support of unions and staff representatives. Co-determination is one of the elements of the social-market economy Ludwig Erhard-style. It obliges both sides to communicate. It helps to pave the way for a trusting co-operation, although at some stage the process can become clumsy and awkward. And it has another advantage: It also involves staff representations in sharing the responsibility of important decisions.

Nevertheless, we were able to explain to our employees the need to restructure collective agreements, and negotiate a pay freeze. And we managed to avoid full-scale strikes in industrial disputes like we did at the beginning of the year when we entered into a long dialogue with our air crews. Employee involvement requires a kind of openness which sometimes borders on giving away company secrets. But we can now compare ourselves favourably with the labour cost levels of serious European competitors—like KLM and British Airways.

Twelve days ago, the Financial Times had an interesting report on a recent survey, undertaken in the European Union. It revealed that companies which involved their staff in decision-making processes were quicker in achieving important targets, such as cost reductions, output and quality improvements, and a scaling down of the work force to adjust to changing environments, quicker than companies which do not involve their staff in the decision-making process.

Since customers increasingly take the liberty of global sourcing also in their transport needs, global costing has become the natural rationale for us in our competitive environment. That is the reason why we had to begin to internationalise our costs. We concluded, for instance, a collective agreement with our unions that allows us to recruit up to 10 per cent of our flight attendants outside Germany. They can be hired at local conditions thus bringing down personnel costs.

We process reservations data and tickets in India and have spun-off some maintenance work to our own maintenance subsidiary in Ireland. We also recently established a cargo airline in India. We are not acting differently from companies like, say, Siemens, BMW, Hoechst or Daimler Benz. In a way, Germany can claim to be a highly globalised country. The internationalisation of some of our jobs and certain activities of our company has helped to secure jobs in Germany. And that has been largely understood by our staff.

Altogether, I am rather more optimistic than some of the commentators watching the European scene who concentrate their reporting on the battles of management and labour, and the moaning of politicians. It is rather sad that the claim that Europe is facing a crisis of competitiveness has become conventional wisdom.

It is highly doubtful, however, whether that is really the case. I think the export figures or the productivity levels of countries such as Germany and France speak a different language. Germany continues to be the second-biggest exporter after the United States.

Some economic experts point out that continental Europe's problem is not a failure of productivity growth across all sectors of the economy. They even maintain that Germany loses out on inward investment because its high productivity makes it less interesting to transfer production to the country. Work requiring little or no ingenuity and skill can, indeed, be produced cheaper elsewhere. Labour in countries such as Germany is often overqualified for such jobs and it is certainly highly paid.

Overseas observers also tend to overlook the fundamental consequences for Western Europe caused by the fall of the iron curtain. An opening up of the U.S.-Mexican border would be only half as dramatic as that historic event has been for Europe. Billions of marks and dollars have been and are still being transferred to Eastern Europe to kick-start their economies. Their well-trained labour force is forcing their way onto western labour markets. Their availability has caused a drain of work to the East.

Continental Europe's real problem is job creation. Labour cost is high because social costs are high. But as long as productivity is high, the present level of labour costs may even be warranted to a certain degree.

In the table of the world's highest-paid workers, Germany tops the list ahead of Switzerland and Belgium. But when it comes to money in the pocket we fall back to number three behind Switzerland and Japan.

Nevertheless, there are encouraging developments taking place in Europe and in Germany right now. Facing unsatisfactory employment figures, unions and employers are vigorously discussing ways of mastering the problem. Innovative contracts that would allow pay and working hours to even out highs and lows in production cycles have been introduced in a number of companies such as Volkswagen.

Stimulating creativity and developing innovative and so-called intelligent products is becoming widely recognised as the main goal to aim for. Let me cite an example. Lufthansa Cargo AG, our freight airline, has recognised that carrying goods from A to B is a job that can—in the long run—easily be handled by third-level carriers. To counter this situation we have set ourselves the target of changing our number-one cargo airline into the world's leading provider of logistics services. The logic is simple. As a first-world company we must provide an innovative first-world product even in such a mundane business as carrying crates and boxes.

Altogether, I am optimistic that we will overcome the current problems of this, our transitional period leading to a genuine global economy. Many brains are working on solutions and so are we in our particular industry.

There is another development which makes me confident about our role in the triad of the three economic powers, America, Europe and Asia—the gradual integration of the single common market and the European Monetary Union.

I am convinced, the Euro will come and it will be ready for introduction in 1999 because all continental countries are making enormous strides in putting their respective houses in order. The side effect for European consumers has been remarkable. The average inflation rate has gone down from 13 per cent in 1980 to 2.4 per cent in 1996.

Even the U.K., where there is less enthusiasm for a currency not bearing the head of Her Majesty, major industrial companies are preparing for the introduction of the Euro.

Like the partners of NAFTA, the nations of Europe so far have found many advantages in their common market gradually turning into a single market. NAFTA, I trust, has done our partner Air Canada good, and so too, has Lufthansa benefited from the EU. Both of us can participate in a true efficiency contest.

With the European Monetary Union, some 40 billion Deutschmarks of annual costs spent on managing transfers between the various currencies of Europe will disappear. That alone will bring a giant boost to our continent's efficiency.

The European Monetary Union will create a huge financial market and establish a level playing field for the Europeans' money market and stock exchanges. If Wall Street catches a cold in the future that will not necessarily mean that Frankfurt or Paris will go down with flu.

But above all, it will prevent countries from hiding weaknesses in their economies by simply devaluing their currency. The Euro will force politicians to upgrade their operational standards, so to speak. We can presently observe a lot of belt tightening, cost cutting and restructuring going on in the businesses and administrations of Europe. That might be very much along Ludwig Erhard's lines. Today, he might well have given similar advice to that which he gave the Germans 40 years ago: "Work hard, be moderate, do not consume more than you can earn, restrict public spending and trust in the mechanism of the markets. But do not set your social conscience aside, trust your labour force and let your people participate in the vital issues that concern your and their future."

We have begun to let our staff have a share in the ownership of the company. I would very much welcome 25 per cent of the Lufthansa equity being held by our employees eventually. Maybe we will see the day when we can discuss with our unions whether part of our employees' salaries should not be coupled with the well-being of the airline; in other words, whether we should not pay out part of our salaries as shares.

So, in the end, my "despatches from the globalisation front" are far from being gloomy. They report on retrenchment and repositioning rather than retreat. People in my country are beginning to realise that the division of labour that has created wealth has gone one step further with globalisation.

The Germans and their fellow Europeans are in the middle of a learning process. If we rely on our strengths and use our lead in education, knowledge, process technology, capital resources and infrastructure, the industrialised countries of Europe will not miss out. We must be willing to adapt, though. But I am certain we will learn by doing and that globalisation will bring greater opportunities than risks.

Having said that, I found myself—not quite inadvertently—paying tribute to Ludwig Erhard, a great social marketer and leader who once addressed the famous Empire Club.

The appreciation of the meeting was expressed by Marcia McClung, President, Applause Communications and a Director, The Empire Club of Canada.

April 24, 1997

John McLennan

President and CEO, Bell Canada

A BIT AT A TIME: CREATING CANADA'S SERVICE EXPORT ECONOMY

Chairman: **Julie Hannaford**
President, The Empire Club of Canada

Head Table Guests

Douglas Todgham, Vice-President, The Canadian Institute for Advanced Research and Third Vice-President, The Empire Club of Canada; Sabrina Mahabir, OAC student, Bloor Collegiate; The Rev. Dr. John Gladstone, Minister Emeritus, Yorkminster Park Baptist Church; Bill Farlinger, Chairman, Ontario Hydro; Dr. Catherine Henderson, President, Centennial College; Richard Currie, President, Loblaw Companies and George Weston Limited and a Director, BCE Inc.; Jocelyne Coté-O'Hara, Telecommunications Consultant, former CEO, Stentor Telecom Policy Inc. and Director-Elect, The Empire Club of Canada; Carl Lovas, President, Lovas Stanley/Ray & Berndtson; John McGrath, Vice-President and Director, RBC Dominion Securities; Dr. Douglas Wright, President Emeritus, University of Waterloo, Advisor to the Canadian Imperial Bank of Commerce on Knowledge-Based Industries and a Director, Bell Canada; and Fred Sorkin, President and CEO, Hummingbird Communications Limited.

Introduction by Julie Hannaford

Exactly 60 years ago, The Empire Club of Canada offered its podium to a great scientist, a great thinker, and a great innovator. He was an American, who had developed a long-standing and fond association with Canada and in particular Brantford, Ontario. His name was Alexander Graham Bell. He spoke to The Empire Club of Canada in 1917 about his thoughts not on the telephone, but on the future of aeronautics. His greatness was not only in inventing the telephone but in his determination to look forward to how we bridge distances and how we eliminate the very concept of distance as a barrier. Today our guest continues that vision.

When Alexander Graham Bell addressed The Empire Club of Canada, telephone calls were still a miracle of technology. Much has changed since then. Indeed, as short a time as five years ago, the topic of telecommunications at The Empire Club of Canada might have occupied only one luncheon address. This season, The Empire Club of Canada has hosted a series of addresses on telecommunications with leaders in all segments of the industry, who have addressed our Club on the issues that face Canada in a 21st century that we know will be transformed by telecommunications.

We are pleased and privileged today to have the last but certainly not the least address from the telecommunications frontier by Mr. John McLennan, President and Chief Executive Officer of Bell Canada.

Mr. McLennan has a long and distinguished history in the telecommunications industry, and with Bell Canada. From April, 1990 until he joined Bell Ontario, Mr. McLennan served as President and Chief Executive Officer of BCE Mobile Communications Inc. He became Chairman of the Board of BCE Mobile in April, 1993 and continues in this position as a member of its Executive Committee. Mr. McLennan, before he joined BCE Mobile, was the President and Founder of Jenmark Consulting Inc., which specialised in strategising, financing and managing technology companies in Canada and the U.S. He served as Vice-President and then Executive Vice-President with Mitel Corporation during its period of rapid expansion and growth. Mr. McLennan was appointed President and Chief Executive Officer of Bell Canada on January 1, 1994.

Mr. McLennan offers his insights, predictions and comments on Canada's service export economy, and the way we shall see and understand telecommunications and by necessary implication Canada in both the near and distant future.

It is my privilege to ask you to welcome to The Empire Club of Canada today, Mr. John McLennan, President and Chief Executive Officer of Bell Canada.

John McLennan

Good afternoon, ladies and gentlemen. It is a very great pleasure indeed to address The Empire Club, because this organisation has a long and proud history as one of the leading platforms in the nation for raising important issues that affect us all.

I am also proud to be here so shortly after the 150th anniversary of the birth of the inventor of the telephone, Alexander Graham Bell—the man who overcame the limitations of distance by making the world's first long-distance phone call between Brantford and Paris, Ontario.

Indeed, many Canadians have made significant contributions to the advancement of world telecommunications and that continues even today. But Bell was certainly the first who happened to live the last 30 years of his life in the beautiful town of Baddeck, Nova Scotia, located on Cape Breton Island—a community where I also happened to live, many years later.

I may make it a prerequisite for all future presidents of Bell Canada. I say that somewhat tongue-in-cheek because a lot of important things happened in Baddeck—the first flight in Canada, for example, and a proliferation of other innovations that were the forerunners of many things we take for granted today.

Consequently, Baddeck earned many footnotes in the history of Canadian innovation, due in great part to the fertile, restless mind of Alexander Graham Bell. Not bad for a small town that very few people outside Cape Breton have ever heard of.

Innovation and Breaking Paradigms

The example of Baddeck is quite relevant even to this day: size alone doesn't guarantee innovative success.

What matters most is determination, and how you choose to see the world.

For instance, Bell refused to accept an assumption that had governed communications to that day—that two people had to be in the same room to have a conversation. His breakthrough literally changed the course of the future in a way that only a few inventors can claim—but only because Bell refused to accept the status quo.

Today, Canada faces the same choice. Do we wish to accept passively and forever the assumptions that have brought our country and economy to the present day, or do we want to change our future through bold, frame-breaking acts of leadership?

And if you agree that the future can no longer be considered a simple extension of the past, Canada must confront a number of pressing problems that make reaching the future—better off than we are today—no sure thing.

Reaching the Future

At the top of my list are the serious challenges we face in improving productivity growth and closing what the Organization for Economic Cooperation and Development (OECD) has called a serious innovation gap.

Productivity growth is key both to international competitiveness and rising national incomes. While Canada has a high rate of productivity, we have a low rate of productivity growth. Let me put that into perspective.

From 1960 to 1973, productivity growth averaged two per cent per year. At this rate, the standard of living in Canada would double about every 35 years. But since 1973, productivity growth has averaged only three tenths of a percentage point each year, meaning that at this rate, the standard of living would double only every 231 years.

The best way to jump-start productivity growth is through innovation. But here Canada also faces a serious problem. According to the OECD, we suffer from an innovation gap, characterised by:

- low R&D spending as a percentage of GDP, particularly by the private sector;
- weak diffusion and adoption of advanced technologies in all sectors, especially when compared to the U.S.; and
- a big mismatch between the skills needed in the economy and those which are now available resulting in the rather convoluted situation whereby we are importing people that possess high-demand skills, and enduring near double-digit unemployment.

While Canada has always been a great exporter, realising prosperity in the next millennium depends on taking a rising share of the most valuable export product of the future—the global market for innovative skill and intellectual capital.

But look at where we are. Exports are highly concentrated, with 55 per cent coming from the resource and automotive sectors. The top-five exporters in Canada account for 22 per cent of exports; the top-50 exporters account for almost half; and the top 500 account for some 75 per cent. Less than 10 per cent of small and medium-size enterprises take advantage of globalisation at all. So it looks as if our current profile by itself won't give us a particularly influential position in the most important industry of tomorrow.

This may not matter to people who are already well-off. But if we are to leave a better legacy for the next generation, then the enduring questions of unemployment, underemployment, and economic growth all have to be addressed today—through commitments to improving productivity, closing the innovation gap, and securing leadership positions in growth industries.

So what must be done? Where do we go from here? How can Canada be a meaningful player in the integrated global information industry?

I suggest the answer involves a fundamental reconfiguration of the Canadian economy to include a vibrant service sector, focused on exports, enabled primarily by a world-leading telecommunications infrastructure. That, I believe, will enable us to secure our future—if we act now.

Winds of Change

Choosing a direction and implementing it are two different things. Implementation means making investments which are, in effect, bets on the future. And in most industries, especially mine, four factors make choosing the right bets increasingly difficult.

First, globalisation has changed the face of international business forever. In the past two decades, international telecommunications traffic has grown five times more than world trade and is now almost a trillion-dollar global industry. And with that comes increased competition—not only in our own market, which we welcome, but in other markets, which we must examine to see if participation there makes any sense.

Compounding that challenge is the fact that global telecom carriers are realigning to take advantage of the new environment. Today the global market is evolving around one of three supercarrier alliances which are changing the economics of the information industry. Not only do alliances offer seamless connectivity with regional or national telephone companies around the world, they also permit the sharing of the growing expense of innovation.

And while Bell and its sister companies in BCE are world-class in ability, we clearly do not match the scale of the global supercarriers. So as our near-term strategy unfolds, it is clear that all players in this fast-changing industry will engage in some form of enhanced relationship with one or more of the super-carriers.

The second factor is expanding competition, a natural offshoot of both rapid global deregulation and accelerating convergence. Total competition isn't news. Rather, it's the "new world" that Bell has been readying itself for ever since I joined the company three years ago. But total competition brings with it new pressures and complexities. Traditional sources of revenue will probably decline as most basic telecommunications services move to commodity-like pricing.

Some of our competitors will invest in the most lucrative parts of the market, but on the whole will simply resell our services, thereby enabling them to channel energies and investments into marketing and selling.

The third force leading to increased uncertainty is the incredibly rapid advance of technology.

The growth of the Internet is perhaps the best manifestation of technological accomplishment, going from virtually nowhere to becoming the hottest competitive battleground in under four years. As more and more people get on the net, a critical mass will be achieved that will deliver a huge amount of value to users—just like the proliferation of fax machines did not so long ago.

I predict that most companies will reinvent themselves around the core capabilities that the Internet portends—most important of which is the ability to serve world markets from almost anywhere.

This is having a big effect now. For the first time in history, the volume of data traffic on our North American public switched network exceeds voice traffic. Peak loads on the telephone network used to occur at 10:00 a.m. and 3:00 p.m. every weekday. Now peak load occurs at about 10:30 p.m. every day!

This development has caused most players to abandon any previously held notion of how the Information

Highway will evolve. The industry's TV-centric view has been replaced universally by a computer-centric view.

But to me, the most important contribution of the Internet is that it has created a set of expectations in the mind of the public as to how information services will be available and delivered in the future—fast, reliable, in real time, and to a demanding standard of quality and sophistication.

That's because the fourth factor—customer ascendancy—has changed almost everything. The customer has displaced the regulator as the arbiter of our industry's future. The creation of the Internet, the reduction of long-distance prices, and the availability of choice has led to an expectation among customers that they will be receiving more and more for less and less.

This is a huge challenge to any industry but it must be met in my industry through innovation and a renewed focus on making services accessible, friendly to use, low-cost, and packed with features that customers want.

Betting on the Future and on Canada

The sum total of all of these factors has resulted in a sea of broken assumptions and a revolutionary change in thinking about how companies, including Bell, do business. In an environment where there are no guarantees, each company has to step up and make its bet. Our bet is that the telecommunications and application-software industry has tremendous potential to serve global markets, and create jobs here at home.

For Bell, this means winning the battle for the future not only about getting the costs right. We have put the job of creating a perpetuating cycle of innovation at the top of our management agenda, along with improving efficiency, productivity, and shortening the product-development cycle.

To that end, Bell will be announcing in a few weeks time the creation of a new software-based service-development organisation, which will be one of the largest R&D shops in Canada. We will share more details on this initiative soon.

One reason for taking this step is not only to tackle head-on the innovation gap that Bell faces, but to take aim at the innovation gap which threatens Canada's prosperity. We hope and expect that this new organisation will have the same catalytic job and company-creating effect in Canada, as the formation of Hewlett-Packard did in Silicon Valley four decades ago.

This is a bold ambition, perhaps, but one that I believe is entirely within reach. But nothing less than a bold commitment to earning leadership will succeed, because winning the battle for prosperity in the next-generation economy is going to be a formidable challenge. Winning will be reflected in how well companies and countries attract, retain, and engage intellectual capital, which is and will continue to be the most important source of innovation.

We plan to be in on the ground floor to ensure that a distinctly Canadian voice helps guide the evolution of the global digital economy. The prize is an opportunity to serve customers, reward both shareholders and employees, and improve Canada's standard of living.

The Digital Economy

The digital economy is based on the increasingly efficient movement of information. And while a lot is happening today, much more is needed if Canada is to become a leader in the digital economy and an exporter of services. The government of Canada has set out a vision for telecommunications based on two clear goals which are shared fully by Bell:

- one, that Canadians must receive world-class telecommunications services at competitive prices from a strong domestic industry;

- and two, that Canada strengthens its position in the development and provision of such services globally.

To help achieve this vision, Bell's efforts and those of our partners in the Stentor alliance, are focused around three strategic initiatives.

First, we must create the world's first National Area Network—a coast-to-coast, high bandwidth capacity, all-digital, wireline and wireless infrastructure offering access to all Canadians. A National Area Network will let every Canadian compete for prosperity, from Timmins to Kelowna to Repentigny to Baddeck. In a digital economy, every Canadian and every part of Canada can have the same starting place.

The second strategy involves making Canada into a living laboratory—a world-leading incubator of communications solutions for the world, all enabled by the digital economy. We would furnish the means whereby innovative companies from around the globe could create and test advanced business and consumer services right here. This means reconceptualising our networks to being more like computer operating systems, rather than pipelines moving bits of information.

The third strategy calls for creating new applications, solutions and services for domestic and global markets. I believe this would help smaller and medium-size businesses by boosting their productivity and return on investment. Larger companies are already benefiting from new solutions and steadily improving operating costs. Governments could benefit from the ability to deliver services, strengthen education, and improve the cost and efficiency of health care in new and innovative ways.

These strategies condense into one powerful idea: we must focus on the creation of an enabled environment right here in Canada to create, attract, and keep the next-generation companies that seek to serve world markets. Only then can we move from selling traditional services in traditional ways to selling new services in new ways. This is the real promise of the digital economy.

But the question remains: "Who will do it?"

Bell's Commitment

Global telephone companies and domestic cable companies certainly have a role. After all, the Canadian market is too attractive for them to ignore.

But creating the digital economy and closing the innovation gap that Canada faces won't be achieved through price wars, cream-skimming, reselling, or through any of the idealised market structures that dominate the language of discussion today.

It will only be built through a competitive spirit that is reflected in actions, initiative, and investment in innovation. It will be less about choosing the right industries than choosing the right conditions where next-generation industries can flourish.

Because in a digital economy, the computer bit knows no flag. Innovative individuals and companies will locate to the best, most hospitable environment in the world. This means that all of us—governments, business, and Bell—are engaged in a competitive struggle to ensure that the architects of the companies of the future choose Canada.

The stakes are clear—Canada cannot become a branch plant in the most important industry of tomorrow. That's why Bell will continue to seek the same rules for all competitors in all telecommunications-related markets, and continue to rely on the free market as the best way to let customers decide which services should thrive and which should not.

My challenge to the international supercarriers is to come and invest in Canada. If we invite the world here to compete, everyone on the same terms, following the same rules, Canada can't lose. This is a vision worth fighting for.

Thus we are waiting for the decision of the CRTC on local competition policy and a host of other critical issues with keen anticipation. Regardless of the outcome, we intend to fight for our customers' business because that is the only way forward to achieve success.

Let's Build the Future In Canada

Ladies and gentlemen, the new world is a world of information and the digital economy will become a fact. The only question that remains is: "Where first?"

I think the answer should be, "Right here," because Canada has a proud heritage, beginning with Alexander Graham Bell, that today gives us a chance to shape and lead this new world economy for some time to come.

That's the reason why getting our rules right, our targets clear, and old paradigms behind us is so important. We must move now.

Thank you very much.

The appreciation of the meeting was expressed by Douglas Todgham, Vice-President, The Canadian Institute for Advanced Research and Third Vice-President, The Empire Club of Canada.

Annual General Meeting

President's Report

April 24, 1997

Chairman
Julie K. Hannaford, President

Julie K. Hannaford

Honoured guests, distinguished Past Presidents, members and friends of The Empire Club of Canada. Notice has been given that our annual meeting is to be held on this date and I have asked the Club Secretary, Willis Blair, to act as Secretary for the meeting.

In accordance with Article VI, Sub-section 2, the Empire Club's Constitution, I am pleased to report on the year's activities.

Membership

Total membership for the year 1996–1997 is 1,626 compared to 1,817 members in 1995–1996. Categories of membership are as follows:

	1996–1997	1995–1996
Honorary Life Members	5	5
Life Members	135	147
Spousal	298	352
Regular	945	1,062
Student	17	21
Senior	226	230

Attendance

A total of 45 meetings for the year 1996–1997 attracted 9,685 attendees representing a statistical average of 215 attendees per meeting compared to 40 meetings in 1995–1996 with 9,013 attendees representing a statistical average of 225 attendees per meeting.

Finance

Membership fees for regular membership, $50; spousal, $60.00; senior, $37.50; student, $30.00; or senior spousal, $50.00 and varying amounts depending on age for life membership. Luncheon prices for members approximate the hotel charge for luncheons. An additional charge of $5 is levied on non-member luncheons. The financial statements for the year ending April 30, 1997 will be presented to the Board of Directors. The audited financial statements will be published in the 1996–1997 yearbook.

Respectfully submitted,

Julie K. Hannaford
President

Julie K. Hannaford moved adoption of her report, seconded by Bob Dechert.

Report of the Nominating Committee

April 24, 1997

David A. Edmison

Madame President, fellow directors, distinguished guests, members of The Empire Club of Canada. It is my pleasure, as Chairman of the Nominating Committee, to report on the work of the Committee which was constituted in accordance with Article III of the Club's Constitution.

Nominating Committee

The following persons served on the Committee:

From the Board of Directors:
David Edmison—Chair
Ed Badovinac
Diana Chant
Julie Hannaford
Dr. Eric Jackman
William Laidlaw
Gareth Seltzer
Douglas Todgham

From the membership at large:
Montague Larkin
Willis Blair
Catherine Charlton
Ian D. C. McPhail
Rev. Canon Harold F. Roberts

Honorary Officers

The Nominating Committee is pleased to report that the Honorary Officers nominated for the 1997-98 season are as follows:

Honorary President
  The Rt. Honourable Roméo LeBlanc
  P.C., C.C., C.M.M., C.D.
  Governor General of Canada

Honorary Vice-President
  The Honourable Hilary M. Weston
  Lieutenant-Governor of Ontario

Honorary Chaplain
  The Rev. Canon Harold F. Roberts
  C.D., B.A., M.Div., AdeC.

Honorary Secretary
  Alan Tonks

Honorary Treasurer
  Hartland M. MacDougall, C.V.O., O.C.

Honorary Solicitor
  The Hon. William Grenville Davis

Archivist and Historian
  Gordon G. Steele, M.Comm.

Honorary Directors

It is the recommendation of the Committee that the following continue as Honorary Directors: Leland H. Ausman, The Hon. Barnett J. Danson, P.C., A. Carlyle Dunbar, Katie Hermant, Montague Larkin, Angus Scott, Margaret Scrivener, William Whiteacre and William Whittaker. In addition to these the Committee would like to recommend two new Honorary Directors: Mrs. Mary R. Byers and Major William A. Duncan, CD.

Directors

According to the Club's Constitution "the Board of Directors shall consist of forty members ... including at least four Past Presidents of The Empire Club, one of whom shall be the immediate Past President and three others shall be the three Past Presidents immediately preceding the immediate Past President…"

Therefore, in recognition of this constitutional requirement, the Committee nominates the following Past Presidents as Directors of the Club:

the immediate Past President, Julie K. Hannaford

and also David A. Edmison, John A. Campion and Frederic L. R. Jackman.

Furthermore, the Nominating Committee recommends that the following members of the Board of Directors continue to serve in the coming year:

Edward P. Badovinac
Rev. Kim Beard
S. W. (Sam) Billich
Mary Lou Benotto
LCol. A. G. (Sandy) Cameron
Denise Cole
Ann Curran
Robert J. Dechert
Jan Dymond
Blake C. Goldring
Duncan N. R. Jackman
Anne Libby
Marcia McClung
William J. McCormack
Marnie McGarry
David McFadden, Q.C.
Bart J. Mindszenthy
Maria Roman-Bricknell
John Sadler
Margaret Samuel
C. Alexander Squires
Larry Stout
Thomas L. Wells

Resignations

I would like to take this opportunity to pay tribute to Douglas Bassett, Gordon Chong, Charles Pielsticker and Paul Scargall who will not be standing for re-election. All have been of great service to the Club and we are grateful to them.

New Directors

Your Nominating Committee is pleased to nominate the following new members for the Board of Directors:

George Cooke
Jocelyn Coté O'Hara
Gwyn Gill
Blair McCrobie
Kenneth B. Rotman
Garry Thompson
Rose Wolfe

Officers

In addition to the above-mentioned nominees, the Committee recommends the election of the following three people who will be proposed to the Board of Directors for appointment to the positions of Vice-President and Director:

1st Vice-President and President-Elect
John H. Tory

2nd Vice-President and Director
L. Douglas Todgham

3rd Vice-President and Director
William Laidlaw

The Nominating Committee is pleased to report that Willis L. Blair will continue as Secretary and that Diana L. Chant, C.A., has agreed to continue as the Club's Treasurer. Both Willis Blair and Diana Chant will also serve as Directors of the Club.

Finally, your Committee is pleased to nominate as President and Director of The Empire Club of Canada for its 1997–98 season, Gareth S. Seltzer.

Respectively submitted,

David A. Edmison
Chairman

After David Edmison presented his report, it was seconded by Sandy Cameron. There being no further nominations, Ed Badovinac moved that nominations be closed. Bill Duncan seconded the motion.

The President then asked the Secretary, Willis Blair, to cast a single ballot in favour of those persons named in the report of the Nominating Committee, in accordance with Article III-3 of the Constitution of the Club.

The new President, Gareth Seltzer, then came forward and was installed as President and received the chain of office from the retiring President, Julie K. Hannaford.

The President Gareth Seltzer expressed his gratitude for the confidences placed in him as he assumes his new responsibilities. President Gareth Seltzer moved, seconded by Sandy Cameron, to approve the signing officers for The Empire Club of Canada for 1997–98, the Club's 94th year. The meeting was adjourned.

The Empire Club of Canada

MEMBERSHIP 1996–1997

Life Members

N. John Adams
J. D. Alexander
William N. Allan
Graham H. Ambrose
B.Gen. & Mrs. S. F. Andrunyk
Mr. & Mrs. Leland H. Ausman
Ruby P. Avison

Mr. & Mrs. Edward Badovinac
John Bassett
Joseph Batty, OBE
Mr. & Mrs. Ian S. Baxter
D. S. Beatty
M. E. Louise Beck
Dr. R. C. Bennett
Bruce Birrell
Willis L. Blair
R. L. Broad
F. B. Brooks-Hill
Arthur E. Brown

Mrs. Charles Carter
Sir Arthur R. T. & Lady Chetwynd
Mr. & Mrs. John Cook
Benedict G. R. Cotterill
Mr. & Mrs. Elgin E. Coutts
John A. D. Craig
Dr. H. V. Cranfield
Nola Susan Crewe
Dorothy Crummey
Mrs. Matthew Currie

George C. Damiani
Douglas A. C. Davis
Elvio Del Zotto
Mr. & Mrs. D. L. Derry
Robert G. Douglas
A. A. Duncanson
Mr. & Mrs E. A. Duvernet

Joseph L. Etherington

Dr. David J. Fieldhouse
A. E. Fitzpatrick
Federico Friedberg
Col. C. S. Frost, Jr., Q.C.

Lillian G. Gandier
George Raymond Gibson
J. Rennie Graham
John W. Graham, Q.C.
Kenneth G. Graham
Patricia A. Grand
Wayne Scarisbrick Gray
Ian Griffin
John W. Griffin
Rainer E. Gut

George S. Hanson
Nona Macdonald Heaslip
Paul T. Hellyer
Roland E. Henderson, Q.C.
Adam B. T. Hermant
Peter Hermant
John D. Herrick
Col. R. H. Hilborn
William S. Hill
Dorothy Hobbs
Dennis Holota
Mrs. E. Howell

A. E. M. Inwood
John F. Irwin

Henry N. R. Jackman
Friederich W. Jung

Elfreda W. Karn
John Kemp
F. Marion Kiddell

James G. Laidlaw
A. T. Lambert
John V. Lawer, Q.C.
Kenneth Legge
M.Gen. Bruce J. Legge
Eric N. Lehner
Friedrich Lehner

James D. Lewis
Mr. & Mrs. D. D. Lucas
Joseph F. Luciano

E. Nelson MacNab
John & Gail MacNaughton
Beverley Matthews, Q.C.
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James W. McCutcheon, Q.C.
F. Y. McCutcheon
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Dr. Herbert Michel
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D. V. Mosher
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James G. A. Naish

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Norman Pearson, F.R.T.P.I.
B. E. Plain
Dr. Sheila Pollock
D. A. Pryer

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John E. Richardson
Rev. Canon & Mrs. H.F. Roberts
Helen E. Roman Barber
Col. The Hon. R. C. Rutherford

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Mrs. H. R. Shaver
Samuel V. Shefsky
Dr. & Mrs. W. K. Shultis
James R. Smeed
Albert Smith, Q.C.
Mrs. Donald T. (Audrey) Smith
Sam Sniderman, C.M.
Dr. & Mrs. R. F. Stackhouse
G. O. Stafford
Henry J. Stalder
Mr. and Mrs. G. G. Steele
Dr. Peter Stingelin

Graham John Tappin
Mrs. Barton F. Teasdale
K. R. Thomson
Leonard I. Turkevics
R. Turnbull
Capt. T. C. Turner, C.D., R.C.N.R.
L.Col. P. J. Tuz, C.M., C.D.

Michael Van Denbossche

Gordon Waldie, Q.C.
Kenneth M. Watson
F. Bartlett Watt
Douglas S. Wells, O.M.C.

Andrew Stephen Zarnett

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Nizamud-Din Alibhai
Mona Allworth
Rev. Harry Amey
R. F. K. Anthony
Bluma Appel
Wm. L. Archer, Q.C.
G. Warren Armstrong

Sharon Baptista
Sonja Bata
K. J. Beamish
Josephine Beard
Ruth Beaucage
Fred E. Becker
Dr. Henry Berry
J. L. Biddell
Prof. Dr. Petro B.T. Bilaniuk
Walter Bilbrough
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K. Breuer
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Noel Croxon
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Ying Hope
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A. B. Irwin

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Wilfert Jacqueline
Warren D. Wilkins
Marina Winters
Joan M. Wright
John L. Wright

John H. Yocom
Ernst Younes

Arie Ziering
Frank A. Zimmer
Adam H. Zimmerman
Michael Zygocki

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Vic Ackerman
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Debra Allan
M. Elyse Allan
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Paul F. Anisman
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Auditors' Report

To the Members of
The Empire Club of Canada

We have audited the balance sheet of The Empire Club of Canada as at April 30, 1997 and the statements of revenue and expenditures and members' equity for the year then ended. These financial statements are the responsibility of the Club's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Club as at April 30, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the Ontario Corporations Act, we report that in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG
Chartered Accountants

Toronto, Canada
June 18, 1997

Financial Report

THE EMPIRE CLUB OF CANADA
Balance Sheet as at April 30, 1997

	1997	1996
Assets		
Current Assets		
Cash and short-term deposits	$302,470	$ 268,079
Accounts receivable	17,883	18,092
Inventory	2,041	2,081
	322,394	288,252
Capital Assets	1	1
	$322,395	$288,253
Liabilities		
Current Liabilities		
Accounts payable	$ 24,259	$ 27,649
Due to The Empire Club Foundation	106,444	106,493
Provision for prepaid membership fees and unredeemed luncheon tickets	6,451	6,451
	137,154	140,593
Members' Equity		
Surplus	165,664	128,083
Life Membership Reserve	19,577	19,577
	185,241	147,660
	$322,395	$288,253

Signed on behalf of the Board

Frederic L. R. Jackman
Director

Diana L. Chant
Director

The accompanying notes are an integral part of these financial statements.

THE EMPIRE CLUB OF CANADA
Statement of Members' Equity for the Year Ended April 30, 1997

	1997	1996
Surplus, Beginning of Year	$ 128,083	$ 107,579
Excess of revenue over expenditures for the year	37,581	45,504
Special contribution to Empire Club Foundation	—	(25,000)
Surplus, End of Year	$ 165,664	$ 128,083
Life membership reserve, beginning and end of year	$ 19,577	$ 19,577

The accompanying notes are an integral part of these financial statements.

THE EMPIRE CLUB OF CANADA
Statement of Revenue and Expenditures for the Year Ended April 30, 1997

	1997	1996
Revenue		
Membership fees	$ 38,151	$ 41,056
Luncheons		
Regular, net	31,905	12,798
Special	22,907	27,081
Head table sponsorship	44,229	23,071
Other sponsorships	13,178	46,496
Interest	9,605	12,724
	159,975	163,226
Expenditures		
Meetings	980	735
Members' notices	22,211	19,729
Office and general	10,658	13,687
Office salaries and employee benefits	39,530	37,932
Printing, stationery and postage	6,471	8,072
Publicity and promotion	2,033	1,998
Rent	10,819	10,737
Telephone	4,692	4,516
Yearbook donation and sundry expenses	25,000	20,316
	122,394	117,722
Excess of Revenue over Expenditures for the Year	$ 37,581	$ 45,504

The accompanying notes are an integral part of these financial statements.

THE EMPIRE CLUB OF CANADA
Notes to Financial Statements for the Year Ended April 30, 1997

General

The Club was incorporated under Letters Patent in the Province of Ontario on March 26, 1912. The principal function of the Club is to provide a forum for prominent people to address members of the Club and their guests on topics of current interest.

1. *Summary of Significant Accounting Policies*

(a) Revenue Recognition
Revenues are recorded on the accrual basis of accounting.

(b) Inventory
Inventory is valued at the lower of cost and net realisable value.

(c) Capital Assets
Capital assets, consisting of office furniture and equipment, are recorded at nominal value and additions are recognised as an office and general expenditure in the year acquired. There were no significant additions in the fiscal year ended April 30, 1997.

(d) Due to The Empire Club Foundation
A donation to The Empire Club Foundation for the estimated cost of supplying the Club's membership with the yearbook of the current year is accrued each year.

(e) Deferred Revenue
Deferred revenue consists of membership fees paid in advance and unredeemed luncheon tickets.

(f) Statement of Changes in Financial Position
A statement of changes in financial position has not been included as it would not provide any additional meaningful information.

2. *Life Membership Reserve*

Term deposits are segregated as funding for this reserve in order to provide a continuing income stream to sustain the membership costs of life members.

3. *Commitment*

In October 1995, the Club entered into a lease agreement for premises expiring September 30, 1997. Minimum annual rental payments under this lease agreement for the year ending April 30, 1998 amount to $3, 605 .

The Empire Club Foundation

June 3, 1997

Ladies and gentlemen,

As is evident from the addresses in this yearbook The Empire Club, under the leadership of Julie Hannaford, continued its long-standing tradition of providing a unique and valuable forum for outstanding speakers and maintaining, through this yearbook, a published record of the addresses. The year started on a high level with Bill Gates of Microsoft and the pace and quality continued to the final address.

The financial statements that follow this report reflect the significant and generous support of the members and friends of The Empire Club of Canada in response to the need to return the Foundation to financial stability. In addition, the Foundation is currently indexing all speeches made to the Club, and this information will be put on the Internet in order to increase the accessibility to information on speeches since 1903 for members, libraries and historians. A number of members have provided early financial support for this important project, as noted on the list of contributors that follows. A full fundraising campaign will be launched shortly.

I would like to thank those members and friends of The Empire Club of Canada who have responded so generously over the last year. I also thank the Directors and Officers of the Foundation for their support and advice.

Yours sincerely,
Douglas L. Derry, FCA
Chairman

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* *Includes support of updating index and inclusion on the Internet*

Auditors' Report

To the Members of
The Empire Club Foundation

We have audited the balance sheet of The Empire Club Foundation as at April 30, 1997 and the statement of revenue and expenses and net assets for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many charitable organisations, the Foundation derives revenue from donations from supporters, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of this revenue was limited to the amounts recorded in the records of the Foundation and we were not able to determine whether any adjustments might be necessary to donation revenue, excess of expenses over revenue, assets and net assets.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the donations referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Foundation as at April 30, 1997 and the results of its operations and the changes in net assets for the year then ended in accordance with generally accepted accounting principles. As required by the Canada Corporations Act, we report that in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG
Chartered Accountants

Toronto, Canada
November 12,1997

Financial Report

THE EMPIRE CLUB FOUNDATION
Balance Sheet as at April 30, 1997 with comparative figures for 1996

	1997	1996
Assets		
Current Assets		
Cash	$ 22,304	$ 6,436
Accounts and interest receivable	5,147	315
Due from The Empire Club of Canada	106,444	106,493
	$133,895	$113,244
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	$ 82,459	$154,280
Net Assets	51,436	(41,036)
	$133,895	$113,244

Signed on behalf of the Board

Douglas Derry
Director

Ronald Goodall
Director

The accompanying notes are an integral part of these financial statements.

Financial Report

THE EMPIRE CLUB FOUNDATION
Statement of Revenue and Expenses and Net Assets for the Year Ended April 30, 1997 with comparative figures for 1996

	1996	1995
Revenue		
Donations:		
The Empire Club of Canada	$ 24,950	$ 45,000
Supporters	101,900	7,278
Interest	1,623	—
	$ 128,473	$ 52,278
Expenses		
Yearbook	29,243	70,986
Database	4,500	—
Stationery, postage and other expenses	2,258	90
	$ 36,001	71,076
Excess of Revenue over Expenses (Expenses over Revenue)	92,472	(18,798)
Net Assets - Beginning of Year	(41,036)	(22,238)
Net Assets - End of Year	$ 51,436	$ (41,036)

The accompanying notes are an integral part of these financial statements.

Financial Report

THE EMPIRE CLUB FOUNDATION
Notes to Financial Statements for the Year Ended April 30, 1997

1. *The Foundation*

   The Foundation was incorporated on January 22, 1969 under the laws of Canada as a non-profit organisation. The principal function of the Foundation is the publication and distribution of yearbooks, containing the texts of addresses to The Empire Club of Canada, to the Club's members and libraries across Canada. The Foundation's activities are funded by donations.

2. *Significant Accounting Policy*

   The Foundation includes donations in revenue when received except for donations from The Empire Club of Canada which are included in revenue when pledged. The estimated cost of publishing and distributing yearbooks of the current year is accrued each year.

CONSTITUTION

As amended April 26, 1973

Organisation of the Club

ARTICLE I

Name

1. The Name of the club shall be The Empire Club of Canada.

Purpose and Object

2. The purpose and object of the club is to promote the interests of Canada and the British Commonwealth by the consideration and discussion of subjects and events relating thereto and by any other means appropriate to the facilities of the club.

Membership

ARTICLE II

Classes of Members

1. The membership of the club shall consist of:
   - (a) Honorary members
   - (b) Life members
   - (c) Regular members
   - (d) Corporate members

   All members of classes (a), (b), (c), must be the full age of eighteen years.

Honorary Members

2. Honorary members may be elected by the unanimous vote of those present at a meeting of the board of directors. They shall be exempt from the payment of fees but shall not have the privilege of voting or holding office and their membership shall be terminated at any time by a two-thirds majority of those present at a meeting of the board of directors.

Life Members

3. Members of the club in good standing (other than corporate members) and other persons regularly proposed may be elected life members by a two-thirds

majority of those present at a meeting of the board of directors. Life members shall pay such a fee in one sum as may be fixed from time to time by the board of directors.

Regular Members

4. Save as provided in Section 5 of this Article candidates for regular membership shall be proposed by a member in good standing and shall be elected by a two-thirds majority of those present at a meeting of the board of directors.

   Save as provided in Section 5 of this Article regular members shall pay respectively such annual fees as may be fixed from time to time by the board of directors.[1] Members elected after the first day of March in any year shall pay one annual fee only in respect of the period from the date of election until the thirtieth day of September in the following year. No member in arrears for fees after January 1 shall be considered in good standing.

Corporate Members

5. Any company, partnership or business organisation shall be eligible for election as a corporate member. Applicants shall be proposed by a member in good standing and the application shall contain the names and positions of the persons nominated by the applicant as its representative regular members. The applicant and its nominated representatives shall be elected by a two-thirds majority of those present at a meeting of the board of directors. A corporate member shall be entitled to nominate such number of its representative regular members as may be fixed from time to time by the board of directors and shall pay such annual fee as may be fixed from time to time by the board of directors, provided that such fee shall not be

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[1] *By resolution of the Board, November, 1981, and under Article II, 4, of the Constitution, it was agreed that the club charge a lesser membership fee for spouses living at the same residence, and that this fee should be fixed annually.*

less than the aggregate fees which would have been payable on an individual basis by such representative members for the year in question. Save as in this section provided no fee shall be payable by or in respect of the representative regular members of a corporate member.

Directors

ARTICLE III

Duties and Powers

1. The affairs of the club shall be managed by a board of directors who may exercise all such powers and do all such acts and things as may be exercised or done by the club and are not by the by-laws or by law directed or required to be done by the club at a general meeting of its members. At all meetings of the board of directors the chairman of the meeting shall have a casting vote.

Number and Quorum

2. The board of directors shall consist of forty members of whom sixteen shall constitute a quorum. The board of directors shall include at least four past presidents of the club, one of whom shall be the immediate past president and three others shall be the three past presidents immediately preceding the immediate past president if they are willing and able to act as directors.

Election of Directors

3. A nominating committee consisting of five members of the board of directors and four other regular members of the club shall be appointed annually by the board of directors at least thirty days prior to the annual meeting and shall prepare a list of nominations for directors for the ensuing year. The chairman or acting chairman of the nominating committee shall report the nominations of that committee to the annual meeting at which the board of directors shall be elected, but nothing herein shall preclude the nomination of other persons for the office of directors at the annual meeting. If nominations do not exceed the number of directors necessary, the chairman of the

meeting may instruct the Secretary-Treasurer to cast one ballot in favour of those so nominated and thereupon such persons shall be declared by the chairman to have been duly elected. No person shall be elected a director unless he is a regular member in good standing and is a Canadian citizen or a British subject.

Meetings of Directors

4. Meetings of the board of directors shall be called by the President, or on a requisition signed by three of its members. Written notice of such meetings shall be given to each director five days or more before the meeting is to take place, provided that a meeting may be held at any time if all the directors are present or if those absent have waived notice of or otherwise signified their consent to such meeting being held in their absence or have approved or signified their approval in writing to the proceedings taken at the meeting. The board may appoint a day or days in any month or months for regular meetings, at an hour or place to be named, and of such regular meetings, no notice need be given.

Casual Vacancies

5. In the event of any vacancy occurring in the office of director, the remaining directors may fill the vacancy from among the members for the unexpired portion of the term of office of the person whose office is vacant.

Officers

ARTICLE IV

1. The officers shall consist of an Honorary President, an Honorary Vice-President, a President, First, Second and Third Vice-Presidents, an Honorary Treasurer, an Honorary Secretary, a Secretary and a Treasurer. The board of directors may from time to time elect or appoint such other officers as it shall deem necessary. The President and the Vice-Presidents shall be directors of the club but other officers need not be directors. No person other than the Honorary President and the Honorary Vice

President shall be eligible for office unless he is a member in good standing. The President shall, when present, preside at all meetings of the members and of the board of directors. During the absence or inability to act of the President, the Vice-Presidents in order of seniority shall act as chairman at such meetings and otherwise perform and exercise the duties and powers of the President.

Appointment of Officers

2. The board of directors shall meet as soon as convenient after their election for the purpose of appointing the officers of the club for the period ending April 30 in the next year but each officer shall continue in office until his successor is elected.

Casual Vacancies

3. In the event of a vacancy occurring in any office the board of directors may fill the vacancy for the unexpired portion of the term.

Honorary Auditor

4. An Honorary Auditor shall be appointed at each annual meeting. An audited statement of the finances of the club for the fiscal year shall be published annually and a copy shall be sent to each member.

Committees

ARTICLE V

1. The following standing committees and the chairman of each shall be appointed by the board of directors as soon as convenient after the election of the board:
   (a) Budget and Finance Committee
   (b) Speaker's Committee
   (c) Membership Committee
   (d) Constitution Committee
   (e) Reception Committee
   (f) Publicity and Public Relations Committee
   (g) Yearbook Committee
   (h) Head Table Committee

provided that for any year the board of directors may by resolution elect not to appoint any one or more of such committees.

2. The President or the board of directors may from time to time appoint such other committees as may be deemed expedient.

Meetings of Members

ARTICLE VI

General Meetings

1. The club shall hold general meetings weekly, if possible, from October to April, both inclusive, in each twelve months with such intermissions as may from time to time be determined by the board of directors. Special meetings of the club may be called at any time by the President.

Annual Meeting

2. The annual meeting shall be held not later than April 30 in each year. At the annual meeting a report of the year's proceedings and work shall be submitted by the President and this report shall be accompanied by an interim report from the Secretary-Treasurer.

Notice of Meetings

3. Written notice of all meetings shall be given all members of the club before the date on which the meeting is to be held. Such notice shall be sufficient if addressed to the members, and deposited post paid in the post office in Toronto. The accidental failure or omission to give notice to any member shall not invalidate the proceedings at any meeting.

Quorum at Meetings

4. Sixteen members in good standing shall constitute a quorum at any meeting of the club, general, annual or special, and the chairman of the meeting shall have a casting vote.

Limitation of Business at General Meetings

5. No business other than the hearing of the addresses shall be introduced at any meeting of the club by any person

other than the chairman of the meeting, unless it has been submitted to the board of directors and received its approval.

Fiscal Year

ARTICLE VII

The fiscal year of the club shall end on such day in each year as may be fixed by the board of directors but unless so fixed by the board shall end on April 30.

Amendments

ARTICLE VIII

Subject to the provisions of The Corporation Act this constitution may be amended by the board of directors, but unless in the meantime confirmed by a majority of the members present in person at a meeting of the members duly called for that purpose, any amendment is effective only until the next annual meeting of members unless so confirmed thereat and, in default of such confirmation thereat ceases to have effect at and from that time, and in that case no new amendment of the same or like substance has any effect until confirmed at a meeting of the members.

Amendment to By-Law A

The President stated that the Directors at their last meeting had amended the General By-Law of the Club so that the first Vice-President could be designated in the future as first Vice-President and President-Elect. This change was required to be confirmed by the members and accordingly

ON MOTION DULY MADE, SECONDED, AND UNANIMOUSLY CARRIED, it was resolved that the following amendment to Paragraph 1 of Article IV of By-Law No. A be confirmed:

Officers

The officers shall consist of an Honorary President, an Honorary Vice-President, a President, a first Vice-President and President-Elect, Second and Third Vice-Presidents, an Honorary Treasurer, an Honorary Secretary and a Secretary-Treasurer. The Board of Directors may from time to time elect or appoint such other officers as it shall deem necessary. The President, the First Vice-President and President-Elect, the Second Vice-President and the Third Vice-President shall be directors of the Club but other officers need not be directors. No person other than the Honorary President and the Honorary Vice-President shall be eligible for office unless he is a member in good standing.